

---

## RISK FACTORS

---

*You should read and consider carefully all the information set forth in this document and, in particular, the risks and uncertainties described below before making any [REDACTED] in the [REDACTED]. Our business, financial condition, results of operations or prospects could be materially and adversely affected by any of these risks and uncertainties. The market [REDACTED] of the [REDACTED] could decline significantly due to any of these risks and uncertainties, and you may lose all or part of your [REDACTED].*

We believe that there are certain risks and uncertainties involved in our operations, many of which are beyond our control. These risks can be categorised into (i) risks relating to our business and industry, (ii) risks relating to our Contractual Arrangements, (iii) risks relating to conducting business in the PRC, and (iv) risks relating to the [REDACTED]. You should consider our business and prospects in light of the challenges we face, including the ones discussed in this section.

### RISKS RELATING TO OUR BUSINESS AND INDUSTRY

**We may not be able to anticipate or successfully adapt to new trends and may face increasingly intense competition in the mobile game industry which makes it difficult for us to evaluate our business and prospects.**

The global mobile game industry (including in the PRC) is evolving rapidly and is particularly subject to changes in technology. We constantly need to adapt to new industry trends, including changes in user preferences, new game content requirements, new distribution models, new technologies and new governmental policies and regulations. For instance, we need to anticipate and assess the feasibility and market acceptance of emerging new technologies such as virtual and/or augmented reality games which deliver an immersive gameplay experience. Furthermore, government authorities or industry organisations may adopt new standards that apply to game development. We will need to continue to invest significant resources in game and infrastructure development to keep up with the pace of technological advancements. However, the success of game development is inherently uncertain, and our significant investment in technology may not generate anticipated benefits. If we lag behind our competitors in adopting new technologies or standards, our existing games may lose popularity, and our newly developed games may not be well received by our users. In addition, we may incur significant cost overruns in game testing, optimisation and publication due to adoption of unanticipated new technologies, which would have an adverse impact on our business, financial condition and results of operations.

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

---

## RISK FACTORS

---

financial condition and results of operations. Our failure to successfully anticipate or adapt to new industry trends may materially and adversely affect our business, financial condition and results of operations.

According to the Frost & Sullivan Report, as of December 31, 2021, there are approximately 480 companies in the online sports game market in the PRC. The market is fragmented with many relatively small companies with insignificant market influence and is dominated by the largest market player with approximately 19.6% of market share in terms of revenue from online sports game in 2021. In particular, China’s mobile game industry is evolving rapidly and is highly competitive. Moreover, the mobile games industry’s relatively low entry barriers result in easy access by new market entrants in recent years. We expect that this trend will continue and believe that the mobile game offering will continue to proliferate. In addition to domestic competition, we also face competition from overseas game developers and publishers when their games are localized and published in the PRC. We also compete with other forms of entertainment, such as traditional real-world sports games, movies and dramas, which have much larger and more established markets, and other types of mobile apps, such as social media platforms, music and video platforms and live broadcasting platforms.

We compete primarily on a number of factors, including development capabilities, ability to secure suitable IP right licenses, utilization of advanced technology, ability to prolong the lifecycle of our games, user base and engagement, marketing and promotional strategies, relationship with major third-party distribution platforms and publishers, and monetization tactics. Other mobile game companies may have a larger user base, more operating experience as well as financial, marketing and other resources than we do, which may offer them an advantage in developing, publishing and operating games, conducting marketing and promotion activities and hiring talents. Compared to the global leading competitors, we may have a less recognised brand name. This may place us at a less advantageous position in attracting users and sustaining their interest in our games when competing with the market leader or other game operators that have greater brand recognition given their dominant market share and position. As competition intensifies, we may have to offer more incentives to our users as well as to the partners with which we cooperate, including third-party distribution platforms, payment vendors and publishers, which could adversely affect our profitability. If we fail to compete cost-effectively or at all, our market share could decline and our business, financial condition and results of operations could be materially and adversely affected.

**If we fail to officially launch new games according to the contemplated timetable or at all or we officially launch our new games at the same time as other popular games released by third parties, our business, financial condition and results of operations could be materially and adversely affected.**

As of the Latest Practicable Date, we had a pipeline of three new mobile sports games, namely, *MLB Baseball Master* (*MLB* 棒球大師), *NBA Basketball Action* (*NBA* 操作籃球), and *NFL American Football Master* (*NFL* 橄欖球大師), which are expected to be launched by the third quarter of 2022, the second half of 2023 and the second half of 2024, respectively. The timing of official game launch of these new games in our pipeline has a significant impact on their respective performance and popularity. We cannot assure you that we will be able to officially launch new games as scheduled or at all. A number of

---

## RISK FACTORS

---

factors, including technical difficulties, insufficient human, marketing or other resources, failure to complete the necessary registration and obtain approval from the relevant PRC or overseas government authority, poor acceptance of or interest in the new games among users during the testing phase and adverse developments in our relationship with our business partners such as the IP right holders of the renowned sports leagues, sports associations or sports clubs, could result in delays in the official launch or even prevent us from officially launching our new games. If we fail to officially launch new games according to the contemplated timetable or at all, we may disappoint our users, fail to meet the targets for our anticipated financial and operating results or lose our market position to our competitors.

Moreover, if we officially launch our new games at the same time as other popular games released by third parties, the competition may make it difficult for us to attract users to our games, and our third party marketing channels and distribution platforms may commit fewer resources to market and promote our games.

### **We may be exposed to risk of cannibalization among our existing and/or new mobile sports games in the pipeline**

Our *Total Football* (最佳球會) and three new mobile sports games in the pipeline, namely, *MLB Baseball Master* (MLB棒球大師), *NBA Basketball Action* (NBA操作籃球) and *NFL American Football Master* (NFL橄欖球大師), are categorized as sports action simulation games. Despite some overlapping features between sports action simulation games and sports management simulation games, our Directors believe that they are not in direct competition primarily due to their key differences in core gameplay to target a different user group market and hence there will be no significant potential negative cannibalization impact between our existing sports management simulation games and our new sports action simulation games in the pipeline.

Similarly, despite that both of our existing games, *Football Master* (足球大師) and *Football Champion* (最佳11人 — 冠軍球會) are both football-themed sports management simulation games, our Directors believe that there is a low risk of cannibalization given our Group’s strategic differentiation in their core gameplay and target user groups. Also, their different launching time may give rise to a complimentary effect to the extent that the less loyal users, for instance users with relatively less interest in the core gameplay of *Football Master* (足球大師), can be captured by *Football Champion* (最佳11人 — 冠軍球會).

However, we cannot rule out the possibility that our new games in the pipeline may, to a certain extent, have a cannibalization effect among themselves and/or on our existing games, which could in turn make our existing games less attractive to our users such that the paying users of our existing games may choose to spend less on purchasing in-game virtual items. In that case, our business, financial condition and results of operations may be adversely affected.

---

## RISK FACTORS

---

**A significant majority of our revenue is derived from a limited number of games, which also heavily relies on the lifecycle of such games, in recent fiscal periods.**

During the Track Record Period, we derived a majority of our revenue from three of our existing mobile games, namely, *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師) and *Football Champion* (最佳11人 — 冠軍球會). These three games in aggregate contributed 97.9%, 99.6%, 100.0% and 100.0% of our total revenue for the years ended December 31, 2019, 2020 and 2021, and the six months ended June 30, 2022, respectively. We expect that these three games will continue to generate a major portion of our revenue for the coming one or two years during the early growth stage after the respective launch of each of our new mobile sports games in the pipeline. Should there be (i) any decline in the number of users of these games, (ii) any failure by us to improve, upgrade, enhance or optimize these games in a timely manner or at all, (iii) any lasting or prolonged server interruption due to network failures or other reasons, or (iv) any other adverse developments to these games, our business, financial condition and results of operations could be materially and adversely affected.

Also, our games are subject to limited lifecycle which typically comprise five stages: (i) the launch stage; (ii) the early growth stage during which the revenue generated by the game will experience rapid growth; (iii) the stable and mature stage when the game has gradually gained its user base and solidified its market share and the revenue generated by the game tends to be growing or become stable; (iv) recession stage during which some less loyal users begin to lose interest in the game and there may not be enough new users to supplement the user base, such that the number of active users and revenue generated from the game tend to decrease or to stay at a relatively inactive or low level; and (v) final stage when the revenue of the game may fail to cover its operating costs or shows the trend of loss. As of the Latest Practicable Date, our *NBA Basketball Master* (NBA籃球大師) and *Football Champion* (最佳11人 — 冠軍球會) were at the stable and mature stage and our *Football Master* (足球大師) just stepped into the recession stage. As of the Latest Practicable Date, our *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師) and *Football Champion* (最佳11人 — 冠軍球會) are expected to have a remaining lifecycle of approximately 22 months, 60 months and 91 months, respectively. Subsequent to the launch in July 2022, our *Total Football* (最佳球會) is expected to have a remaining lifecycle of approximately 118 months as of the Latest Practicable Date. We cannot assure you that our games can be operated in line with our expected lifecycle given that our users may lose interest in these games over time as a result of the changing market trends or user preferences. In particular, *Football Master* (足球大師) just stepped into the recession stage as of the Latest Practicable Date, after which we may not be able to maintain its attractiveness to our users and may therefore experience a significant decrease in revenue or a loss from the game. If these games become less popular or if the revenue generated from these games decline in any short or extended period of time for any reason, our business, financial condition and results of operations could be materially and adversely affected.

---

## RISK FACTORS

---

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

During the Track Record Period, we mainly developed mobile sports games in-house. As of the Latest Practicable Date, our game portfolio consisted of four mobile sports games, all of which were developed in-house. We have three new mobile sports games in our game pipeline, which are also in the process of development by our in-house research and development team. To be successful in developing new games, we rely largely on our ability to:

- attract, retain and motivate talented research and development personnel;
- generate ideas that can translate into engaging and commercially successful games;
- track and adapt to rapidly changing technologies and mobile sports game market trends;
- continually innovate in response to evolving preferences and demands of our users;
- effectively monetize games without degrading the gameplay experience for our users;
- organize efficient game testing;
- effectively execute our game development plans; and
- build and maintain strong relationships with partners.

In order to attract, retain and motivate talented research and development personnel, we have been offering competitive compensation to talented candidates in line with the prevailing market rate. During the Track Record Period, our costs on employee benefits and salaries for research and development staff accounted for approximately 89.2%, 90.2%, 88.6% and 86.9% of our total research and development expenses, which increased from approximately RMB35.8 million in 2019 to RMB55.6 million in 2021 at a CAGR of approximately 24.6% and from approximately RMB23.5 million for the six months ended June 30, 2021 to approximately RMB32.6 million for the six months ended June 30, 2022. According to the Frost & Sullivan Report, the average salary level of research and development staff in the online game market in the PRC increased at a CAGR of 9.2% from 2016 to 2021 and is expected to increase at a CAGR of 6.4% from 2021 to 2026. Therefore, we may incur significant expenses in offering competitive salary package to our research and development personnel, which may in turn pile up our total research and development expenses. If we are unable to effectively control our research and development expenses, our business, financial condition and results of operations could be materially and adversely affected.



---

## RISK FACTORS

---

**If we fail to renew the IP licensing agreements with the IP right holders or obtain new IP right licenses, the quality and appeal of our games may significantly decrease.**

During the Track Record Period, we had successfully obtained IP right licenses from sports league, sports associations and sports clubs, including NBA, NBPA, FIFPro, A.C. Milan, Liverpool F.C., F.C. Barcelona, F.C. Internazionale Milano, Juventus F.C., F.C. Bayern Munich, Manchester City F.C., Real Madrid C.F., Paris Saint-Germain F.C. and Borussia Dortmund. Our business depends largely upon our IP licensing agreements with the IP right holders. This, in turn, requires that we retain and renew our existing IP right licenses and obtain new IP right licenses from the relevant IP right holders for the development of new mobile sports games. In particular, we rely on the IP licensing agreements to use the images, avatars and/or logos of athletes and sports clubs or teams in our mobile sports games. Failure to renew or retain these IP right licenses may significantly lower the quality and appeal of our games, which may materially and adversely affect our user retention and expansion, and materially and adversely affect our business, results of operation and financial condition. Our retention and renewal of these IP right licenses depend on our relationship with the relevant IP right holders and our performance under the licensing arrangements, some of which provide for licensing fees with arrangement of revenue sharing, as well as the results of bidding processes for our new or existing IP right licenses.

We cannot assure you that we will be able to retain or renew our existing IP right licenses or obtain new IP right licenses on exclusive or favourable terms, or at all. Further, in the event of any expected or unexpected disruption to our negotiation or formalization of the relevant IP right licensing agreement, we may not be able to renew or obtain the IP right licenses in a timely manner, which may result in an overall delay in our development plan for the existing and new games. In particular, the IP right licenses for our four existing mobile sports games, namely, *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師), *Football Champion* (最佳11人 — 冠軍球會) and *Total Football* (最佳球會) are significant to our business. The terms of our IP right licenses will expire. If we are unable to retain, renew or acquire our IP right licenses with those relevant IP right holders, our business, financial condition and results of operations will be materially and adversely affected.

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

We have a short history of operating our mobile games upon which to evaluate the viability and sustainability of our business. For the three years ended December 31, 2021 and the six months ended June 30, 2022, our total revenue generated amounted to approximately RMB378.6 million, RMB404.7 million, RMB459.9 million and RMB294.8 million, respectively. Our growth rate during the Track Record Period should not be considered indicative of our future performance. Instead, you should consider our future prospects in light of the risks and uncertainties regarding our ability to (i) manage our expanding business, including attracting and retaining talented employees; (ii) continue to release new games and enhance existing games to attract and retain users and increase the number of paying users and ARPPU; (iii) maintain and strengthen our collaboration with third-party distribution platforms and third-party publishers to deepen the penetration in

---

## RISK FACTORS

---

existing markets and expand into new markets; and (iv) anticipate and adapt to evolving user preferences, industry trends, market conditions and competition. If we fail to successfully address any of these risks and uncertainties, our business, financial condition and results of operations may be materially and adversely affected.

**Failure to obtain, renew, or retain requisite licenses, permits or approvals or failure to comply with applicable laws and regulations may adversely affect our ability to conduct our business.**

The online game industry in China is highly regulated. Under the current PRC regulatory scheme, a number of regulatory agencies, including but not limited to the NAPP, the MCT and the MIIT, jointly regulate the internet industry, including the online game business. Game operators and publishers must obtain various government approvals and licenses for web and mobile businesses. As we currently derive a significant portion of our revenue and cash flow from our PRC Operating Entities, the PRC Operating Entities are required to obtain and maintain the applicable licenses and approvals from different regulatory authorities in order to conduct the current operations.

We are required to obtain the ICP License for the provision of value-added telecommunications services which is essential to the operation of our business in China. This is a license subject to regular government review or renewal. Although we did not have incidents of material non-compliance with respect to the aforementioned licenses during the Track Record Period, we cannot assure you that we can successfully update or renew the licenses required for our business in a timely manner or that these licenses are sufficient for us to conduct all of our present or future business.

We may also be required to obtain the Internet Cultural Operation Licenses for the operation of online games. However, in accordance with the Notice of the General Office of the Ministry of Culture and Tourism on Adjusting the Scope of Examination and Approval regarding the Internet Cultural Operation License to Further Regulate the Approval Work (《關於調整〈網絡文化經營許可證〉審批範圍進一步規範審批工作的通知》) released on May 14, 2019 and the Decision of the Ministry of Culture and Tourism on revocation the Interim Measures for the Administration of Online Games and the Measures for Planning and Administration of Tourism Development (《文化和旅游部關於廢止〈網絡遊戲管理暫行辦法〉和〈旅游發展規劃管理辦法〉的決定》) circulated by the MCT on July 10, 2019, the MCT no longer assumes the responsibility for the supervision of online game industry and Internet Cultural Operation Licenses regarding online games, so the Internet Cultural Operation Licenses regarding online games will not be renewed by the relevant cultural and tourism department correspondingly. As of the Latest Practicable Date, no new law, regulation or official guideline has been promulgated to specify which governmental authority would undertake such supervision responsibility, therefore whether our Internet Culture Operation Licenses should and how our Internet Culture Operation Licenses can be renewed are subject to the introduction of any new law, regulation and/or supervision requirement by the PRC regulatory authorities in the future, if any. We cannot predict when and what new rules will be promulgated to regulate the online game industry and we cannot assure you that we will be eligible to obtain approvals, authorisations or new licenses for

---

## RISK FACTORS

---

our online game business in a timely manner according to the future laws and regulations, and we cannot assure you that these future laws and regulations will not have any negative impact on our operations, including increasing our compliance costs and limiting our ability to launch and operate new games.

In order to publish and distribute mobile games in overseas markets, it may be necessary for mobile game companies to obtain, renew or retain the relevant licenses, permits or approvals via local third-party agents to comply with the applicable laws and regulations for such publication and distribution. However, as the relevant laws and regulations in overseas markets may not be simple and straightforward, and that we have no physical presence in overseas markets, it may not be possible for us to ensure that the local third-party agents can timely obtain, renew or retain all the relevant licenses, permits or approvals in overseas markets or that they would comply entirely with all the relevant laws and regulations of overseas markets for the publication and distribution of our mobile games, or at all. Failure to comply with the relevant applicable laws and regulations for the publication and distribution of our mobile games in overseas markets may subject our Group to fines and other administrative penalties imposed by those government authorities.

The regulatory environment applicable to our business in the PRC and overseas is complex, and many of the laws and regulations are unsettled and still developing and new laws and regulations may be adopted or amended from time to time. We cannot assure you that we or our local third-party agents will not be found in violation of any future laws and regulations or any of the laws and regulations currently in effect due to changes in the relevant authorities’ implementation and interpretation of these laws and regulations. If we or our local third-party agents fail to obtain, renew or maintain any of the required licenses or approvals or make the necessary filings in a timely manner or at all, we may be subject to various penalties, such as imposition of fines, discontinuation or restriction of our operations, and confiscation of the revenue illegally obtained. Any penalties arising from our violation of local applicable laws may disrupt our business operations and materially and adversely affect our business, financial condition and results of operations.

It is possible that a number of laws and regulations may be adopted or construed to apply to us in the jurisdictions in which we operate that could restrict the online game industries, including Internet information security, privacy protection, juvenile and minor protection, advertising, taxation, content suitability, copyright, distribution and antitrust. Furthermore, the growth and development of electronic commerce and virtual items may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies conducting business through the internet and mobile devices such as ours. We anticipate that scrutiny and regulation of our industry will increase, and we will be required to devote legal and other resources to addressing such regulation. Also, we might be required to seek additional licenses, authorisations or approvals from relevant regulators, the granting of which may be dependent on us meeting certain capital and other requirements and we may be subject to additional regulation and supervision, such as reporting to regulators, all of which could significantly increase our operating costs. Changes in current laws or regulations or the imposition of new laws and regulations in the jurisdictions in which we operate regarding these activities may lessen the growth of online game services and impair our business, financial condition and results of operations.



---

## RISK FACTORS

---

**Our revenue from games mainly come from sales of our in-game virtual items. If this business model ceases to be commercially viable, our business, financial condition and results of operations could be materially and adversely affected.**

As all of our games are offered under a free-to-play model, substantially most of our revenue was primarily generated from the sale of in-game virtual items in such games. By allowing users to start the game without initial charges, this free-to-play business model enables us to quickly attract new users to experience our games and then gradually develop their interests in purchasing our virtual items. However, the success of this business model largely depends on whether we can attract users to play our games and, more importantly, whether we can successfully introduce new and popular virtual items, encourage more non-paying users to purchase virtual items and more paying users to increase their in-game spending.

It is possible that we may not be able to effectively market or price our virtual items. We might also fail to identify and introduce new and popular virtual items and appropriately price them in the future. In addition, our free-to-play business model may cease to be commercially viable. We cannot guarantee that a sufficiently broad base of users will continue to accept this model. It is also possible that a new revenue model will emerge given the rapidly evolving industry and competitive landscape, which may force us to transition into such new model. However, we may have difficulties in effectively adjusting to a new revenue model, as we have adopted the existing free-to-play model since our inception and we may have limited experience of the adjustment. As a result, our business, financial condition and results of operations could be materially and adversely affected due to any change in the commercial landscape in the mobile game industry.

Moreover, users are willing to pay for virtual items in the games because of their perceived value, which depends on the relative ease of securing equivalent virtual items via non-paid means within the games. The perceived value of these virtual items can be affected by an increase in the availability of free or discounted virtual items. If we fail to manage our game economies properly, users may be less likely to purchase in-game virtual items and our business may suffer as a result.

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

The launch of mobile games in the PRC is subject to game registration with the NAPP and issuance of game publication numbers by the NAPP, which resumed game registration since the national level suspension in 2018, and issued game publication numbers for a first batch of games with effective date of December 19, 2018. It is thus unclear how long the authorities will take to review and approve existing game applications. Therefore, there is uncertainty as to when we will be able to complete the game registration and obtain the game publication number for our new games in the pipeline and whether our pipeline games may be able to complete the game registration and obtain the game publication number at all, the failure of which could adversely and materially impact our ability to introduce new games, the timetable for us to launch new games and our business growth and prospects.

---

## RISK FACTORS

---

**If we fail to retain and increase our user base, our business and growth may not be sustainable.**

Our growth depends on our ability to attract new users and retain existing users. In order to maintain and expand our user base, we must continue to invest significant resources in research and development to strengthen our existing game portfolio and introduce high-quality new games or game update, upgrade and variations as well as different online and offline advertising and marketing strategies to promote our existing and new games. Our ability to successfully implement our gaming development and marketing strategies and launch, operate and expand our game portfolio to attract and retain users depends on many factors, including our ability to anticipate and effectively respond to changing users’ interests and preferences, to anticipate and respond to changes in the competitive landscape, to effectively market new games and implement game upgrades to strengthen geographic penetration, and to upgrade our technology and infrastructure to support and maintain system stability of our games. Any such failure may limit the growth or retention of our user base, and our business, financial condition and results of operations may be materially and adversely affected.

In addition, most of our games are based on classic sports games and having relatively long lifespan, due to a myriad of factors, such as the enduring popularity of sports which is deeply rooted in the local culture, prolonged user engagement because of the stickiness of loyal sports fans, and realistic portrayal of the real-life sports world development of our games with continuous upgrades and updates as well as our continuous efforts to extend the lifecycle of our games through various measures. However, there is no guarantee that our games will continue to maintain their current level of popularity and user engagement, or rapidly changing industry trends and user preferences will not render our games obsolete over time. As a result, our business, financial condition and results of operations may be materially and adversely affected. In addition, promoting our brand and enhancing the recognition of our brand is an integral part of our growth strategies. However, we may not be able to effectively promote or develop our brand and, if we fail to do so, our growth may be adversely affected.

Any negative publicity or dispute in relation to us regarding our brand, games and services, company or management could harm the image of our Company and the games we publish, which in turn may reduce the number of active users of our games. Any impact on our ability to effectively promote our brand and any significant damage to the public perception of our brand or our products and services could materially and adversely affect our prospects and results of operations.

**We rely on a small portion of our total users for a substantial portion of our revenue from games, and may not be able to monetise our users effectively.**

Consistent with industry norms, a relatively small portion of our registered users and active users are paying users who contributed to the substantial portion of our revenue from games. During the Track Record Period, we derived a majority of our revenue from three of our mobile games, namely, *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師) and *Football Champion* (最佳11人 — 冠軍球會). During the Track Record Period, our average MPUs for *Football Master* (足球大師) were approximately 19,900, 11,758,

---

## RISK FACTORS

---

7,926 and 6,214, representing approximately 7.8%, 5.7%, 4.9% and 5.7% respectively, of the average MAUs for the same periods. During the same periods, our average MPUs for *NBA Basketball Master* (*NBA 籃球大師*) were approximately 45,313, 45,802, 32,104 and 35,450, representing approximately 8.9%, 12.6%, 6.2% and 7.1% respectively, of the average MAUs for the same periods. During the same periods, our average MPUs for *Football Champion* (*最佳11人 — 冠軍球會*) were approximately 1,039, 14,382, 42,803 and 57,091, representing approximately 7.6%, 14.8%, 8.5% and 8.9%, respectively, of the average MAUs for the same periods. As a result, the numbers of our cumulative registered users and active users do not necessarily indicate our actual and potential revenue generating capabilities. Our sustainable growth, therefore, largely depends on our ability to satisfy the demands of our paying users, to increase the number of paying users and to drive their in-game purchases. If we are unable to retain our paying users, attract new paying users, convert non-paying users to paying users or increase or maintain the in-game purchases by our users, our business, financial condition and results of operations may be materially and adversely affected.

**Our business relies on our data analytical capabilities and our determination of the user relationship period, any adverse impact on which would materially and adversely affect our ability to form appropriate business strategies.**

Our game design, localization and operation are data driven, focusing on the potential user base we aim to target. We rely on our data analytical capabilities to continue to develop and promote popular online games, improve user experience, and enhance our user stickiness and eventually monetization of our games. We evaluate our business operations by reviewing a broad set of game operational and user behaviour information, such as the engagement level of our games, user retention rate, as well as numbers of registered users, active users and paying users. Capturing accurate data calls for the soundness, integrity and efficiency of our information technology infrastructure. We may also collect certain data from the collaboration with our third-party payment vendors and third-party distribution platforms. Our ability to verify such data is however limited. Therefore, if our data analytical capability is compromised due to any reason, the key performance indicators we use for data analytics may not always be accurate or reflect our actual business operations. Similarly, if we incorrectly assess our user demands and interests, market conditions, or potential competitive landscape based on our data analytics, we may not be able to make appropriate operational and strategic decisions. Such failure may materially and adversely affect our business, financial conditions and results of operation.

Moreover, our determination of the user relationship period for each game is based on our best estimate on a game-by-game basis taking into account all known and relevant information at the time of assessment, including primarily the historical game data and user data of the relevant game. However, we may not always have sufficient data to determine the user relationship period, such as in the case of a newly launched game. Our determination of the user relationship period requires us to make significant estimates and assumptions. Such estimates and assumptions are subject to a number of uncertainties and may have material impact on the timing of our revenue recognition. For example, we may take a longer period of time to fully recognize revenue from in-game sales of virtual

---

## RISK FACTORS

---

items than our initial estimated user relationship period for our games. If this occurs, our financial condition and result of operations for a given period may be materially and adversely affected.

**As we expand to new geographical markets and sports action simulation game genre, we are challenged with risks and uncertainties, which could materially and adversely affect our growth prospects.**

During the Track Record Period, the majority of our revenue was derived from the sports management simulation games and from the PRC market. We intend to leverage our success in the mobile sports game market in the PRC to strengthen our market position in overseas markets, such as the United States, Southeast Asia, South Korea, Japan, Western Europe and other regions with large potential users, high consumer spending capacity, deep penetration of major sports, and high smartphone penetration rates. We also plan to diversify our game portfolio by expanding to sports action simulation games. For instance, we launched our first mobile football action simulation game, *Total Football* (最佳球會) in July 2022 and we intend to continue to develop other sports action simulation games in our pipeline, namely, *MLB Baseball Master* (MLB棒球大師), *NBA Basketball Action* (NBA操作籃球) and *NFL American Football Master* (NFL橄欖球大師). An important component of our overseas expansion strategy is to localise our games for users in those markets. We expect to continue to increase our game offerings in more language versions. Our ability to expand our business and attract users in new overseas markets and to develop new sports simulation game genres requires considerable management attention and resources and is subject to the particular challenges of, among others, conducting business in an environment of multiple languages, cultures, customs, legal systems, alternative dispute systems, regulatory systems and commercial infrastructures. Furthermore, we have not previously developed, published and operated baseball and American football themed games. As such, there is no assurance that our development, publication and operation of our three new games in the pipeline will be successful. Our expansion strategy may subject us to risks that we have not faced before or increase risks that we currently face, including risks associated with:

- identifying appropriate overseas markets;
- recruiting and retaining talented and capable management and employees with relevant overseas experience or with relevant experience in developing sports action simulation games;
- challenges caused by geographical distance, language and cultural differences;
- customising games and other offerings that appeal to the tastes and preferences of users in overseas markets;
- competition from local game developers with significant market share and with a better understanding of user preferences and competition with other existing sports action simulation games in the market;

---

## RISK FACTORS

---

- government regulation of mobile usage and online games and restrictive governmental actions, such as trade protection measures, nationalization and restrictions on foreign ownership;
- restrictions on sales or distribution of mobile content and liability for content and services regarding our games;
- business licensing or certification requirements;
- protecting and enforcing our IPs;
- the inability to extend proprietary rights in our brand, content or technology into new jurisdictions;
- implementing alternative payment methods for virtual items in a manner that complies with local laws and practices and protects us from fraud;
- credit risk and higher levels of payment fraud;
- currency exchange rate fluctuations;
- adapting to local business practices;
- difficulty in staffing, developing and managing foreign operations as a result of language and cultural differences;
- protectionist laws and business practices that favour local businesses in some countries;
- political, economic and social instability;
- developing our new games with high quality;
- continuously updating our new games in line with the market trend;
- effectively operating our new games; and
- effectively controlling our costs associated with developing, publishing and operating our new games.



---

## RISK FACTORS

---

We may have difficulty in adequately responding to the complicated challenges and uncertainties we face in overseas markets. If we are unable to manage the risks and costs of our international expansion effectively, our growth rate and prospects may be materially and adversely affected.

**We rely on various third-party distribution platforms and third-party publishers to distribute, publish and promote our games. Our business may be materially and adversely affected if we fail to maintain stable relationship with them.**

In terms of game publishing, we mainly rely on self-publishing. We self-publish our games by (i) collaborating directly with third-party distribution platforms, such as application marketplaces in order to allow users to download our games; (ii) providing QR codes on our official website for visitors to download and install our games; and (iii) commissioning advertising and marketing agencies that publicize our games with links which would be directed to the official website of our games or various third-party distribution platforms. To a lesser extent, we partner with third-party publishers to publish and promote our games.

We are subject to the standard service terms and conditions of these third-party distribution platforms and publishers with regard to the promotion and distribution of our games. We cannot assure you that these third-party distribution platforms and publishers will continue their relationship with us based on existing terms of services, or that these third-party distribution platforms will not further limit our access to its channels. If any of these third-party distribution platforms and publishers (i) goes out of business, (ii) discontinues its relationship with us due to any reason, such as failure to comply with any laws or regulations in any jurisdiction where our games are offered, (iii) limits our access to its channels, (iv) removes our launched game apps from their platforms, (v) modifies its terms of services or other policies, (vi) changes its fee structure, (vii) provides more favorable terms to our competitors or develop its own games, or (viii) is forced to cease the business relationship with us due to its lack of required license or permits or other regulatory compliance issues, our business, financial condition and results of operations could be materially and adversely affected.

Furthermore, any disputes with our third-party distribution platforms and publishers, such as disputes relating to game-related intellectual properties, liability limitations, risk allocation or revenue sharing arrangements, may also arise from time to time. We cannot guarantee that we will be able to resolve such disputes amicably or at all. If our collaboration with a major third-party distribution platform or publisher terminates for any reason, we may not be able to find a replacement in a timely manner or at all, and the distribution of our games may be adversely affected. Any failure to maintain a stable business relationship with a sufficient number of third-party distribution platforms and publishers could negatively affect the number of active and paying users, which would have a material adverse effect on our business, financial condition and results of operations.

---

## RISK FACTORS

---

In addition, we have benefited from the widely recognized brand names and large user bases of these third-party distribution platforms. If any of these third-party distribution platforms loses its market position or otherwise falls out of favor among users, faces other factors which cause its user base to stop growing or shrink, or if any of them fails to perform its contractual obligations to us, we would need to identify alternative platforms for promoting and distributing our games, which would consume substantial management resources and may not be effective, or available at all.

Furthermore, our trade receivables mainly consist of sales proceeds that the third-party distribution platforms’ payment systems or publishers have collected from our users but not yet paid to us. We generally grant a credit term of 30 to 90 days to our third-party distribution platforms and publishers. We do not have any collateral or other credit enhancements over our trade receivable balances. Our management conducts periodic review on the aging condition of our trade receivables and evaluate the likelihood of collection based on each creditor’s situation and ability to pay in full. However, there is no guarantee on the collection of amounts due from our third-party distribution platforms or publishers in a timely manner. During the Track Record Period, we recorded net impairment losses on financial assets due to estimated impairment losses on trade receivables of approximately RMB0.1 million, RMB3.8 million and RMB1.8 million for the years ended December 31, 2019 and 2020 and the six months ended June 30, 2022, respectively, while we recorded a reversal of impairment loss on financial assets of approximately RMB0.2 million in 2021. In particular, the net impairment losses on financial assets of approximately RMB3.8 million for the year ended December 31, 2020 was primarily due to the provision for impairment of trade receivables from an overdue payment by one of our historical major suppliers of an unpaid amount owed to us of approximately RMB3.7 million in 2020. During the six months ended June 30, 2022, we recorded net impairment losses on financial assets of approximately RMB1.8 million due to the provision for impairment of trade receivables from an overdue payment by one of our payment vendors for an unpaid amount of approximately RMB1.8 million. During the Track Record Period, our average trade receivables turnover days were 35 days, 24 days, 25 days and 30 days, respectively. For more details, please see the section headed “Financial Information — Trade receivables” in this document.

Our business operations may be subject to risk of payment deferral or default from our third-party distribution platforms and publishers. We are vulnerable to collection risks if one or more of these third-party distribution platforms and publishers fail to fulfil their obligations to us, including the obligation to remit our share of revenue in a timely manner. In addition, if our relationship with any of our third-party distribution platforms and publishers deteriorates or terminates, or if any of them experiences a decrease in their business generally or payment from paying users, we may not be able to fully recover the outstanding amounts due from them, or at all. If such settlements are not made in full or in a timely manner, our business, financial conditions and results of operations will be adversely affected.

---

## RISK FACTORS

---

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

We rely on third-party payment vendors, such as Alipay, My Card, UniPin and WeChat Pay to facilitate and collect users’ payment of in-game purchases of virtual items. We are subject to various risks and uncertainties associated with these third-party payment vendors. Apart from the collection risks as mentioned above, any scheduled or unscheduled system maintenance or interruption to the ability of our users to use the services from the third-party payment vendors could adversely affect our payment collection, and in turn, our business, financial condition and results of operations. We also rely on the stability of such payment transmissions to ensure the uninterrupted payment service available to our users.

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

Furthermore, our third-party payment vendors are subject to various laws and regulations governing electronic funds transfers, which could change or be reinterpreted in a way that will adversely affect their compliance. If our third-party payment vendors experience any non-compliance incidents, they may be subject to fines and higher transaction fees and even be required to cease their operations to accept online payments from our users, which in turn would materially and adversely affect our ability and process flow to monetize our users.

**Unauthorized use of our intellectual property by third parties, and the expenses that we may incur in protecting our intellectual property rights, may materially and adversely affect our business and reputation.**

We regard our proprietary domain names, copyrights, trademarks, patents, trade secrets and other intellectual property rights critical to our business operations. We have historically relied on trademark and copyright laws, trade secret protection, restrictions on disclosure, and other agreements that restrict the use of our intellectual property rights by third parties to protect our intellectual property rights. For our proprietary games, we register software in China for copyright protection and take various measures to protect our source codes, including confidentiality agreements. Any failure to register trademarks or patents in any country or region may limit our ability to protect our rights in such country or region under relevant trademark or patent laws, and we may even need to change the name or the relevant trademark in certain cases, which may adversely affect our branding and marketing efforts.

---

## RISK FACTORS

---

In order to protect our technology and know-how, we rely on confidentiality provisions in relevant agreements with our employees, licensees and other advisers. These agreements may not effectively prevent unauthorised disclosure of confidential information and may not provide an adequate remedy in the event of unauthorised disclosure of confidential information. In addition, others may independently discover trade secrets and proprietary information which limit our ability to assert any trade secret rights against such parties. The validity, enforceability and scope of protection of intellectual property in internet-related industries are uncertain and still evolving. In particular, the laws and enforcement procedures in China, Southeast Asia, and certain other countries and regions where our games are accessible to local users may not protect intellectual property rights to the same extent as the laws and enforcement procedures of other countries. Policing unauthorised use of proprietary technology is difficult and expensive. Any steps we have taken to prevent the misappropriation of our proprietary technology may be inadequate. Despite our efforts to protect our intellectual property rights, other game developers may copy our ideas and designs and other third parties may infringe on our intellectual property rights. Moreover, litigation may be necessary in the future to enforce our intellectual property rights. Future litigation could result in substantial costs and diversion of our resources, and could disrupt our business, which may have a material adverse effect on our business, financial condition and results of operations.

**We cannot be certain that our business operations do not or will not infringe on any patents, copyrights or other IP right licenses held by third parties. We may incur significant legal expenses in case of third-party claims.**

Due to the nature of our business as a game developer, publisher and operator, we may be subject to legal proceedings and claims relating to the intellectual property rights of third parties from time to time in the ordinary course of our business. Any such proceedings or actions or claims, with or without merit, could be costly and distract our management from day-to-day operations. If we fail to successfully defend against such claim or do not prevail in such proceedings, we may be prohibited from using such intellectual property rights, subject to fines and penalties, or be required to modify, optimize or cease operating our games, or satisfy indemnification obligations that we have with some of our users, or enter into royalty or licencing arrangements with licencing fees or be forced to develop alternatives. Any royalty or licencing arrangements that we may seek in such circumstances may not be available to us on commercially reasonable terms or at all. And we may incur substantial legal expenses in defending against these third-party infringement claims, regardless of their merits. Also, if we acquire technology to be incorporated in our games or operation from third parties, our exposure to infringement actions may increase because we must rely upon these third parties to verify the origin and ownership of such technology. Such exposure to liability could result in disruptions in our business that could materially and adversely affect our financial condition and results of operations.

In addition, some of our employees were previously employed at other companies, including our current and potential competitors. We also intend to hire additional personnel to expand our research and development team. To the extent these employees were involved in the development of content or technology similar to ours at their former employers, or to the extent these employees are found to utilize intellectual property from

---

## RISK FACTORS

---

their former employers, we may become subject to claims that these employees or we have misappropriated proprietary information or intellectual properties of the former employers of our employees. If we fail to successfully defend such claims against us, we may be exposed to liabilities which could damage our reputation and adversely affect our business, financial condition and results of operations.

During the Track Record Period, we have obtained IP right licenses from renowned sports league, sports associations and sports clubs to use their trademarks and products, including but not limited to the right to use their brand name, image of stadium, brand’s application manual, jersey, names and images of individual players so as to enable us to enrich game content, scenes, players and images. Our licensors who have licensed to us the right to use their brands and related intellectual properties may cause our Group to face claims of infringement of third parties’ intellectual property rights and claims for indemnification if such licensed intellectual properties are found to be invalid. In addition, our licensors may be unaware of intellectual property registrations or applications relating to these rights that may give rise to potential infringement claims against the licensors or us. Parties making infringement claims may be able to obtain an injunction to prevent our licensors and us from using relevant intellectual properties. Intellectual property litigation is expensive and time-consuming and could divert management’s attention from our business. A successful infringement claim against our licensors or us could, among other things, result in prohibiting us from continuously promoting, using, distributing or selling our games which have infringed a third party’s intellectual property rights. Any intellectual property claim or litigation, regardless of whether we or our licensors ultimately win or lose, could damage our reputation and adversely affect our business, financial condition and results of operations.

**We may not be able to successfully implement our business strategies.**

We have been focusing primarily on mobile sports games during the Track Record Period. We plan to (i) renew existing IP right licenses and acquire additional IP right licenses from sports leagues, sports associations and sports clubs for the development of our existing and new sports games; (ii) further solidify our marketing efforts to actively promote our games to both PRC and overseas markets; and (iii) further strengthen our talent pool in order to support our development of new mobile sports games and further improve our research and development capabilities. For details, please refer to the section headed “Business — Our Strategies” in this document for more details. However, there is no guarantee that we will be able to attract and hire more experienced and professional technical experts to join our research and development team or we may not be able to develop commercially viable games that will gain sufficient popularity, user interest and user retention, so our business plan may not be successful.

Moreover, we plan to dedicate a significant part of the [REDACTED] from the [REDACTED] to pursue our business strategies, which include substantial costs to be incurred such as employee expenses for hiring further manpower and technical experts, advertising and marketing expenses as well as expenses for renewing or acquiring further IP right licences. Failure to implement our business strategies at our planned budgets, or generate sufficient revenue to cover such costs, could substantially increase our expenses



---

## RISK FACTORS

---

and impose negative pressure on our profit margin, cash flow and risk profit, prevent us from recouping our investment costs, hinder our ability to optimize our games to enhance user monetisation, weaken our overall competitive position, reduce our profitability and limit our growth prospects, any of which would have a material adverse effect on our business, financial condition and results of operations.

**Our business is subject to fluctuations due to opening and ending of sports seasons, which may materially and adversely affect our business, financial conditions and results of operation.**

Our business is subject to fluctuations due to the opening and ending of sport seasons. As our mobile sports games aim to mimic the real-life sports events, there may be a spike of user activity for our games during the opening of sport seasons and then there may experience a drop in user activity towards the end of the sport seasons. As real-life sports leagues, sports clubs and sports associations may also have personnel changes such as the transfer and/or recruitment of players or coaches, users who follow real life dynamic in football and basketball games closely would be expecting upgrades or updates to be made to our games during the off-seasons, when such changes will most likely occur in real life.

We cannot assure you that we will be able to upgrade our games to follow real life transfers and recruitment of players or coaches closely and that our users will not lose interest in our games during the off-seasons. If these games become less popular or if the revenue generated from these games decline in any short or extended period of time for any reason, our business, financial condition and results of operations could be materially and adversely affected.

**We may not be able to continue to use certain properties that are currently used by us.**

As of the Latest Practicable Date, we leased seven properties for business and office use. The lessor with whom Wangchen Technology entered into one of its lease agreements, which is used as an ancillary studio for our research and development team to prepare 3D simulation model on sports player’s motion, cannot provide us with the relevant building ownership certificate of the leased property, and such lease agreement was not registered with the relevant PRC government authorities. As advised by our PRC Legal Advisers, there exists a risk that the lessor from whom we leased such property may not have the right to lease such property to us and if the beneficial owner of such leased property refuses to recognize the lease agreement signed between the lessor and Wangchen Technology, Wangchen Technology may not be able to continue to use the leased property and failure to register such lease agreement may lead to a maximum fine of RMB10,000 if the relevant PRC government authorities require us to rectify and we fail to do so within the specified time. For further details, please refer to the section headed “Business — Properties” in this document. In the event that we cannot continue to use the leased property, we will need to find an alternative location and relocate in a relatively short time. However, we may not be able to relocate to other premises on commercially reasonable terms, or at all. In addition, any relocation would incur additional costs or interrupt our business and operations.

---

## RISK FACTORS

---

**Our success depends on the collaborative efforts of our management team and other key employees. If we lose their services, our business may be seriously harmed.**

Our success has depended and will continue to depend upon the continued service of our senior management team and other key employees. In particular, we rely on the expertise and experience of Mr. Jia, one of our Founders, an executive Director, the chairman of our Board and the chief executive officer of our Group, Mr. Huang, one of our Founders and an executive Director, Mr. Li, our executive Director, and our dedicated senior management team which mainly consists of Mr. Zeng Ke, Mr. Guo Yuheng and Mr. Zhao Xin. Mr. Zeng Ke, our vice president of research and development who joined our Group in April 2014, is primarily responsible for project management and engine development of our Group. He plays a key role in the development of our games. Mr. Guo Yuheng, our product vice president who joined our Group in November 2018, contributed to the product development and planning of our Group. Mr. Zhao Xin, our vice president who joined our Group in April 2016, has over ten years of experience in strategy planning and management. He plays a key role in overseeing the business development for the domestic and overseas markets of our Group. In addition, as we focus on the development of mobile sports games, we need to continue to attract and retain skilled and experienced technical experts to maintain our competitiveness. Competition for management personnel and talents in the game industry is intense, as the pool of qualified candidates is limited, and it may be increasingly difficult for us to attract and retain skilled and experienced personnel. If one or more of our senior management team or key employees are unable or unwilling to continue their services with us, we may not be able to fill the vacancies with suitable candidates in a timely manner, or at all, and we may incur additional expenses to recruit and train new personnel. Our business could then be severely disrupted, and our financial condition and results of operations could be adversely affected. If any of our senior management team or key employees joins a competitor or forms a competing company, we may lose users, know-how and key personnel. Each of our senior management members and key employees has entered into an employment agreement and a confidentiality agreement with non-compete undertaking with us. However, if a dispute arises between such any senior management member or key employee and us, we cannot assure you that we would be able to enforce these confidentiality and non-compete provisions in the PRC.

In addition, competition for game programmers and engineers with appropriate qualifications and experience is intense and may increase. Our inability to identify and recruit sufficient game programmers and engineers with appropriate qualifications and experience in a timely manner, or retain existing game programmers and engineers could have a material impact on our business, financial condition and results of operations.

---

## RISK FACTORS

---

**Our business is subject to domestic and international laws, rules, policies and other obligations regarding data protection. If the PRC government or its counterparts in other jurisdictions prohibit the use of personal data for data analytics or we fail to comply with such laws, rules, policies and other regulations, our business, financial condition and results of operations could be materially and adversely affected.**

Our business requires us to use and store in-game user behavioral data and gameplay data to analyze and improve the performance of our games and to optimize our monetization strategies. We have made our best endeavors to assure that we obtain data with the consents of relevant parties and use such data in accordance with applicable laws, regulations and rules. We may be subject to domestic and international laws relating to data privacy and the collection, use, retention, security and transfer of personal data. Several jurisdictions have passed laws in this area, and other jurisdictions are considering imposing additional restrictions. For example, the Decision on Strengthening Information Protection on Networks (《全國人民代表大會常務委員會關於加強網絡信息保護的決定》) was promulgated by the Standing Committee of the National People’s Congress of the PRC on December 28, 2012, and the Regulations on Protection of Personal Information of Telecommunications and Internet Users (《電信和互聯網用戶個人信息保護規定》), which was promulgated by the MIIT and came into force on September 1, 2013, enhanced the legal protection of personal information. The Amendment (IX) to the Criminal Law of PRC (《中華人民共和國刑法修正案(九)》), effective in November 2015, has modified Article 253a of the Crime of Infringing on Citizens’ Personal Information to the Criminal Law of PRC (中華人民共和國刑法), which signifies the PRC governmental authorities’ resolution to further protect personal information. The Standard of Information Security Technology — Personal Information Security Specification (2017 edition) (《信息安全技術個人信息安全規範》(2017年版)), which took effect in May 2018, and the Standard of Information Security Technology — Personal Information Security Specification (2020 edition) (《信息安全技術個人信息安全規範》(2020年版)), which took effect in October 2020 require personal data controller to collect information in accordance with applicable laws, and to obtain the information provider’s consent prior to collecting such data. The Cyber Protection of Children’s Personal Information (the “**Children’s Provisions**”) (《兒童個人信息網絡保護規定》), which took effect on October 1, 2019 stipulates that no organization or individual is allowed to produce, release or disseminate information that infringes upon the personal information security of children under 14. Network operators collecting, storing, using, transferring or disclosing children’s personal information are required to enact special protections for such information. The Announcement of Launching Special Crackdown Against Illegal Collection and Use of Personal Information by Apps (《關於開展App違法違規收集使用個人信息專項治理的公告》) was issued with effect on January 23, 2019 and commenced a coordinated effort among the Cyberspace Administration of China (the “CAC”), the MIIT, the Ministry of Public Security and the SAMR to combat the illegal collection and use of personal information by mobile apps throughout the PRC. On October 31, 2019, the MIIT issued the Notice on the Special Rectification of Apps Infringing Users’ Rights and Interests (《工業和信息化部關於開展APP侵害用戶權益專項整治工作的通知》), pursuant to which app providers were required to promptly rectify issues the MIIT designated as infringing app users’ rights such as collecting personal information in violation of PRC regulations and setting obstacles for user account deactivation. Data privacy protection laws are rapidly evolving and likely will continue to do so for the foreseeable future. Complying with emerging and changing domestic and international legal

---

## RISK FACTORS

---

requirements may cause us to incur substantial costs. If we fail to comply with applicable law, regulations and rules, we may face fines or restrictions on our business activities, or even criminal sanctions.

In addition, we are primarily dependent upon third-party distribution platforms to solicit, collect and provide us with information regarding our users that is necessary for compliance with these various types of regulations. If the third parties we work with violate applicable laws or our policies, such violations may also put our users’ information at risk and could in turn adversely affect our business, financial condition and results of operations. While our administrative systems have developed rapidly, during our earlier history, our practices relating to intellectual property, data privacy and security, and legal compliance may not have been as robust as they are now, and there may be unasserted claims arising from this period that we are not able to anticipate. Any failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to users or other third parties, or our privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other user data, may result in governmental enforcement actions, litigation or public statements against us by consumer advocacy groups or others and could cause our users to lose trust in us, which could have a material adverse effect on our business, financial condition and results of operations.

Furthermore, the success of our business has been, and we expect will continue to be, driven by our ability to responsibly use the data that our users share with us for data analytics. Therefore, our business could be harmed by any significant change to applicable laws, regulations, policies or industry practices regarding the use or disclosure of data our users share with us, or regarding the manner in which the express or implied consent of users for such use and disclosure is obtained. Such changes may require us to modify our privacy policy and our games and features, possibly in a material manner, and may limit our ability to develop new games and features that make use of the data that our users voluntarily share with us.

**Undetected programming errors or game defects in our games could harm our reputation and materially and adversely affect our business, financial condition and results of operations.**

Our games are subject to frequent system improvement and updates, and may contain errors, bugs, flaws or corrupted data that reveal only after the updated applications are accessed by users, particularly as we launch new games and rapidly release new features to existing games under tight time constraints. From time to time, our users have informed us of programming bugs affecting their experience, and we generally resolved those flaws promptly. However, if, for any reason, programming bugs or flaws are not resolved in a timely fashion or undetected programming errors, game defects and data corruption repeatedly occur, it could disrupt our operations, adversely affect the gameplay experience of our users, harm our reputation, cause our users to stop playing our games, divert our resources and lower market acceptance of our games, the occurrence of any of which could also result in legal liability to us or harm our business, financial condition and results of operation.

---

## RISK FACTORS

---

**Any failure or significant interruption in our technology, including servers and network could impact our operations and harm our business.**

The stable operation and performance of our network infrastructure and technology system are essential for our operations that they ensure smooth game functioning and uninterrupted user experience. Our technology infrastructure may in the future encounter disruptions, outages or other performance problems due to a variety of factors, including infrastructure changes, human errors or malfunction in software and capacity constraints. Our growing operations will place increasing pressure on our servers and network capacity as we launch more games and further expand our user base of existing games. Furthermore, our infrastructure is also vulnerable to damages from fires, floods, earthquakes, power loss and telecommunication failures. Any network breakdown or inadequacy that causes interruptions to our games or failure to maintain the network and server or solve such problems in a timely manner could reduce our users’ satisfaction, which in turn will adversely affect our reputation, user base and future growth.

In addition, we rely on third-party service providers for certain key aspects of our network infrastructure, including the storage and maintenance of our leased physical servers hosted in areas possibly prone to natural disasters, such as earthquakes and hurricanes, and therefore, our network infrastructure may be vulnerable to damage. Furthermore, as we operate our games in a number of markets, we highly depend on the performance and reliability of the internet infrastructure in each market, which is maintained by telecommunications carriers owned by either the state or private parties with various levels of technology.

Any disruptions or other problems with these services are out of our control and may be difficult for us to remedy. If our arrangements with our data server providers or any other third party are terminated, invalidated, or modified against our interest, we may not be able to find alternative services or solutions on a timely basis or on terms favourable to us, or at all. If a particular game is unavailable when users attempt to access it or navigation through a game is slower than they expect, users may stop playing the game and may be less likely to return to the game as often, or at all.

Furthermore, our business, financial condition and results of operations will be materially and adversely affected by any potential security breach caused by hackings, which involve attempts to gain unauthorised access to our information or systems, or to cause intentional malfunctions, loss or corruption of data, software, hardware or other computer equipment, the intentional or inadvertent transmission of computer viruses and similar events. It may be difficult for us to respond to security breaches in a timely manner or at all. If an actual or perceived breach of our security system occurs, users’ confidence in the effectiveness of our security measures could be harmed.



---

## RISK FACTORS

---

**Violations of our game policies, such as sales and purchases of accounts through unauthorized third parties, may decrease the quality of our users’ gameplay experience and our revenue growth.**

Certain users may cheat or otherwise exploit vulnerabilities in our games to obtain unfair advantages. These practices harm the experience of users who play fairly and may impede the users’ gameplay experience. For example, certain users may sell or transfer accounts or virtual in-game items through unauthorized third parties in exchange for real money or other real-world properties. We generate no revenue from these unauthorized transactions and we do not permit, or facilitate in any manner, these unauthorized transactions. We have game policies in place which reserve our right to impose sanctions, such as to suspend, terminate or cancel a user account if we find abnormal transactions or activities in the account. If we fail to discover and disable these practices and activities promptly or effectively, our operations may be disrupted, our reputation may be damaged and users may quit our games, which in turn may result in us losing revenue from paying users, incurring additional costs for developing technological measures to detect and combat these practices and activities, creating downward pressure on the prices we charge users for our virtual in-game items, and increasing customer service costs to respond to dissatisfied users. In addition, transactions through unauthorized third-party channels may involve fraud that is beyond our control, and we may face potential claims from our users in connection with their losses resulting from third parties’ fraudulent activities. Such claims, regardless of merit, may harm our reputation, divert our management’s attention and cause us additional expenses in defending against these claims.

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

We launched our user community function to create an online community for our existing users and potential users to communicate with each other and collect feedback for formulating our monetisation strategies and promotional activities. Our users also engage in highly personalized conversations when they use this function. However, we are not able to verify the comments made by our users in our application. Therefore, it is possible that certain users may engage in illegal, obscene or incendiary conversations that may result in a negative impact among other users. Although we screen certain words according to the lists provided by the relevant government authorities, we cannot assure you that all the sensitive information contained in our users’ or members’ conversations can be identified. In serious cases, certain information or content may be deemed unlawful under the laws and regulations in the locations where the games are played, and government authorities may require us to discontinue or restrict certain features or services that would have led, or may lead, to such events. We may incur significant costs in investigating and defending ourselves if we find ourselves subject to penalties or claims based on the nature or content of the information improperly displayed, which may materially and adversely affect our business, financial condition and results of operations.

---

## RISK FACTORS

---

**We face risks related to natural disasters and health epidemics in China and other markets where we operate which could significantly disrupt our operations.**

We face risks related to natural disasters and health epidemics. Our business could be materially and adversely affected by natural disasters, health epidemics or other public safety concerns. Natural disasters 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 operate our games and provide services. Our business could also be adversely affected by the effects of Ebola virus disease, Zika virus disease, H1N1 flu, H7N9 flu, avian flu, SARS, COVID-19 or other epidemics, 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 any of these epidemics harms the PRC economy in general, the general consumer spending sentiment and the mobile sports game industry. Moreover, due to the outbreak of the COVID-19 pandemic, there has been suspension of sports seasons.

In response to the COVID-19 outbreak in China, the PRC government has introduced a series of measures. Business activities in China have also been temporarily disrupted. We cannot guarantee that the COVID-19 outbreak will not worsen or the suspension of business activities in China will not continue, which may, in turn, delay or negatively affect our business and those of our suppliers and other business partners.

In addition, our business, financial condition and results of operations could be adversely affected to the extent that any health epidemic harms the national economy in general. Our headquarters are located in Shenzhen, where most of our Directors, senior management and employees currently reside. Consequently, if any natural disasters, health epidemics or other public safety concerns were to affect Shenzhen or other cities in China where our other offices are located, our operation may experience material disruptions, such as temporary closure of our offices and suspension of service, which may materially and adversely affect our business, financial condition and results of operations.

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

We do not have any business liability or disruption insurance to cover our operations in China or overseas, including losses relating to our systems and business interruption, which, according to the Frost & Sullivan Report, is consistent with customary industry practice of online game companies in China. We have determined that the costs of insuring for these risks and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. In addition, we do not maintain any insurance policies covering risks including loss and theft of and damages to our servers or other technology infrastructure. Any uninsured occurrence of business disruption, litigation or natural disaster, or significant damages to our uninsured equipment or technology infrastructure could result in substantial costs and diversion of resources for us and could adversely affect our financial conditions and results of operations.

---

## RISK FACTORS

---

On the other hand, as of the Latest Practicable Date, we have maintained certain product liability insurance for our games through external insurers. However, there can be no assurance that our product liability insurance coverage will be sufficient or that the insurers will reimburse us for losses and expenses incurred in relation to any product liability of our games in a timely manner or at all. Any events for which our current product liability insurance does not cover or for which our insurance coverage is inadequate, or for which insurers do not reimburse us in a timely manner or at all, may materially and adversely affect our business operations, financial conditions and operating results.

**Our business may be subject to potential tax liabilities from overseas jurisdictions.**

The international tax environment is changing, with new policy proposals and regulations at various stages of implementation around the world, dealing with, amongst other things, the digitalization of the economy. As such, it is possible that new tax regulations will be implemented in certain jurisdictions on a unilateral basis in the near future to require certain profits to be taxed in the jurisdiction(s) in which we have a market presence, including an online presence, through revised nexus and profit allocation rules. We have thus engaged independent tax advisers to review our tax exposure in certain major jurisdictions where our transactions were conducted during the Track Record Period. It is noted that during the Track Record Period, we were not subject to any material overseas tax liabilities for corporate income taxes and transaction taxes, such as value added taxes in relation to the major jurisdictions where our transactions were conducted and no material non-compliance with the relevant tax laws and regulations in these jurisdictions had been identified. For further details, please refer to “Business — Other Taxation Matters” in this document.

Even though we do not have business presence in such overseas jurisdictions, we cannot assure you that we are not subject to overseas tax regulations that may be applicable to us. In addition, changes in policy may lead to changes in tax regulations of jurisdictions relevant to our business. The increase in our tax liabilities from overseas jurisdictions as well as the imposition of new or additional taxes would increase our compliance costs, therefore materially and adversely affecting our financial condition and results of operations.

---

## RISK FACTORS

---

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

Internet-based business is generally not geographically bounded, which means game users from all over the world can access our games and we do not restrict access from any specific jurisdiction unless the local regulators so require. Generally, a user is required to provide certain personal information when applying for a user account, or represent that he/she is not barred from receiving our services under his/her local laws. As at the Latest Practicable Date, we are not aware of any regulatory order, nor have we received any notice from any local regulators requiring our major distribution platforms or us to restrict access to or take down our games in any specific jurisdiction. Although we do not believe the mere fact that our games are accessible to a particular jurisdiction would necessarily render us subject to the local laws and regulations, we cannot assure you that the local regulators share the same view or interpretation. As a result, if the local regulators in any specific jurisdiction place access restrictions to our games, any unsanctioned use of our services by local users may subject us to regulatory risk, including monetary penalties or injunctions, which may adversely affect our business operations.

In addition, the United States and other jurisdictions or organizations, including the European Union, the United Nations, the United Kingdom and Australia, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against certain countries, regions, or against targeted industry sectors, groups of companies or persons, and/or organizations within such countries and regions. During the Track Record Period, a few users of our Group’s mobile apps made a small number of low value in-app purchases using accounts registered with an IP address located in Cuba, Iran or Sudan. Specifically, for Cuba, 17 users made in-app purchases in 2020 valued at RMB1,091. For Sudan, 13 users made in-app purchases in 2019 with a total value of RMB150, and six users made in-app purchases in 2020 with a total value of RMB48. For Iran, three users made in-app purchases in 2019 with a total value of RMB66. As advised by our International Sanctions Legal Advisers, we did not violate the relevant sanctions as a result of any Primary Sanctioned Activity and Secondary Sanctionable Activity for the purpose of the guidance letter HKEX-GL101-19 issued by the Stock Exchange. Therefore, we were not subject to any material contingent liabilities in relation to the Primary Sanctioned Activity or Secondary Sanctionable Activity during the Track Record Period. For more information, please refer to the section headed “Business — Business Activities in Countries subject to International Sanctions” in this document.

However, we cannot predict the interpretation or implementation of government policy at the U.S. federal, state or local levels or any policy by the EU, Australia, the United Nations, the United Kingdom and other applicable jurisdictions with respect to any current or future activities by us or our affiliates or third-party suppliers in the Sanctioned Countries and with Sanctioned Persons. We have no present intention to undertake any future business that would cause us, the Stock Exchange, HKSCC, HKSCC Nominees, or our Shareholders or investors to violate or become a target of sanctions laws of the U.S., the EU, Australia, the United Nations or the United Kingdom. However, we can provide no assurances that our future business will be free of risk under sanctions implemented in these jurisdictions or that we will conform our business to the expectations and requirements of the U.S. authorities or the authorities of any other government that do not have jurisdiction

---

## RISK FACTORS

---

over our business but nevertheless assert the right to impose sanctions on an extraterritorial basis. In addition, because many sanctions programs are evolving, new requirements or restrictions could come into effect which might increase scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions, or being sanctionable. Our business and reputation could be adversely affected if the government of the U.S., the EU, the United Nations, the United Kingdom or any other governmental entity were to determine that any of our activities constitutes a violation of the sanctions they impose or provides a basis for a sanctions designation of our Company.

### **We may experience transfer pricing risk.**

During the Track Record Period, our operations were mainly based in the PRC. From January 1, 2019 to June 30, 2021, the principal business of our Group, including development, publishing and operation of mobile games were carried out through Wangchen Technology in the PRC. Gala Sports HK mainly acted as the contracting party with overseas IP right holders and third-party distribution platforms for the collection of payments from overseas users. Given that Gala Sports HK mainly functioned as the contracting party for overseas market and received various types of services provided by Wangchen Technology, such as game operation services, the intercompany service fees were charged by Wangchen Technology to Gala Sports HK to compensate the service costs incurred by Wangchen Technology. Such intercompany service fees charged by Wangchen Technology to Gala Sports HK for the game operation services provided by Wangchen Technology was regarded as our intra-group transactions relating to our transfer pricing arrangement during the period from January 1, 2019 to June 30, 2021. From July 1, 2021 to June 30, 2022, upon the implementation of the Contractual Arrangements, WFOE undertook the technical services. Wangchen Technology then functioned as a game operator by distributing mobile games to the PRC domestic market and contributing IP right licenses developed as of June 30, 2021 to our Group’s business. Gala Sports HK continued to act as the contracting party with the overseas IP right holders and third-party distribution platforms to collect payments from overseas users. In view of the above operational changes, the intercompany services fees were charged by WFOE to Gala Sports HK and Wangchen Technology to remunerate WFOE for its contributions made to our Group’s PRC and overseas business through game development, and royalty fees were charged by Wangchen Technology for granting Gala Sports HK the right to use the trademark and copyright of the mobile sports games developed as of June 30, 2021 for our Group’s overseas business. Therefore, these intercompany service fees and royalty charges were regarded as our intra-group transactions relating to our transfer pricing arrangement from July 1, 2021 to June 30, 2022.

Based on the transfer pricing review and as advised by our independent transfer pricing consultant, our Directors are of the view that (i) there is no need for any transfer pricing adjustment or provision within our Group, and that the transfer pricing risks of being challenged or investigated by the relevant tax authorities are relatively remote; (ii) our Group is in compliance with the applicable transfer pricing laws and regulations in both Hong Kong and the PRC; and confirmed that (iii) our Group’s transfer pricing arrangements have not been challenged or investigated by any relevant tax authority in Hong Kong or PRC during the Track Record Period and up to the Latest Practicable Date.



---

## RISK FACTORS

---

However, our Group’s tax position may be subject to review and possible challenge by the relevant government authorities and any possible change in laws. In the event that our Group’s tax position is subject to review and possible challenge by the Hong Kong and PRC tax authorities or there is a change in the tax policy and relevant tax laws in these countries and regions, it may adversely affect our Group’s financial position and results of operation. There can be no assurance that our Group will not be found to be operating in breach of the relevant transfer pricing-related laws, or that such laws will not be modified, which, as a result, may require changes to our Group’s transfer pricing practices or operating procedures. Any determination of income reallocations or modifications of the relevant transfer pricing-related laws could result in an income tax assessment and other relevant charges on the portion of income deemed to be derived from the taxing jurisdiction that modified its relevant transfer pricing-related laws. For further details of our transfer pricing arrangements and the assessment conducted by our independent transfer pricing consultant on the intragroup transactions, please refer to the section headed “Business — Transfer pricing arrangements” in this document.

### RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

**If the PRC government finds that the agreements that establish the structure for operating our online game 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 PRC Operating Entities.**

We are a company incorporated in the Cayman Islands and our wholly-owned PRC subsidiary, WFOE is considered as a foreign-invested enterprise. The PRC government prohibits foreign investment in internet cultural activities and restricts foreign investment in value-added telecommunications. For more details on the restrictions please see “Regulatory Overview — Regulations relating to value-added telecommunication services” and “Regulatory Overview — Regulations on online games publishing and operation” to this document. Due to these restrictions and in order to comply with PRC laws and regulations, we conduct our business in China through our PRC Operating Entities. Although we do not have any shareholding interest in our PRC Operating Entities, we are able to exercise effective control over them and receive substantially all of the economic benefits of their operations through the Contractual Arrangements with our PRC Operating Entities and their shareholders. For more information of the Contractual Arrangements, please see “Contractual Arrangements” to this document.

Our PRC Legal Advisers are of the opinion that each of the agreements underlying the Contractual Arrangements (i) taken individually and collectively, are legal and valid, (ii) do not violate the articles of association of each of WFOE and Wangchen Technology, and (iii) are legally binding on the parties of each of the agreements underlying the Contractual Arrangements in accordance with their terms and provisions under applicable PRC laws and regulations, except for 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, and (iv) each

---

## RISK FACTORS

---

of the agreements underlying the Contractual Arrangements is binding on the parties thereto and does not violate the provisions of “Violating any mandatory provisions of laws or administrative regulations”, “malicious collusion is conducted to damage others’ legitimate rights and interests” or “offending public order or good morals” as stipulated in the Civil Code of the PRC.

However, there can be no assurance that the PRC government authorities will not take a view in the future that is contrary to or otherwise different from the opinion of our PRC Legal Advisers stated above. 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 or our VIE lack the necessary permits or licenses to operate our business, or there is a possibility that the PRC government may adopt new laws and regulations in the future which may invalidate the Contractual Arrangements, the relevant PRC regulatory authorities would have broad discretion in dealing with such violations or failures, including, but not limited to:

- requiring the nullification of the Contractual Arrangements;
- restrict our right to collect revenue;
- imposing fines and/or confiscating any of our income generated from the operation under the Contractual Arrangements;
- revoking the business licenses and/or operating licenses of our WFOE or our PRC Operating Entities;
- discontinuing or imposing restrictions or onerous conditions on the business operations of WFOE or our PRC Operating Entities;
- imposing conditions or requirements with which we or our PRC Operating Entities may not be able to comply;
- requiring us to undergo a costly and disruptive restructuring in such a way as to compel us to establish a new enterprise, re-apply for the necessary licenses or relocate our businesses, staff and assets;
- restricting or prohibiting our use of the [REDACTED] from the [REDACTED] or other of our financing activities to finance the business and operations of WFOE and our PRC Operating Entities; and
- taking other regulatory or enforcement actions that could be harmful to or even shut down our business.

---

## RISK FACTORS

---

The imposition of any of the above-mentioned actions could cause significant disruption to our business operations, and may materially and adversely affect our business, financial condition and results of operations. In addition, it is unclear that whether new PRC laws, rules and regulations would be introduced to impose additional requirements that may impose additional challenges to our corporate structure and Contractual Arrangements. Moreover, if the imposition of any of these consequences causes us to lose the rights to direct the activities of our PRC Operating Entities or our right to receive their economic benefits, we would no longer be able to consolidate the financial results of our PRC Operating Entities into our consolidated financial statements in accordance with HKFRSs, thus adversely affect our business, financial condition and results of operations.

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

A substantial part of our revenue and cash flow are attributed to our PRC Operating Entities. Due to PRC’s restrictions or prohibitions on foreign investment in online game operation business, we control our PRC Operating Entities and the holders of some of the key licenses required to operate our online game business in China through the Contractual Arrangements rather than direct ownership. Please see the section headed “Contractual Arrangements” to this document for more information.

However, the Contractual Arrangements may not be as effective as direct ownership in providing control over our PRC Operating Entities. For example, Wangchen Technology and its shareholders could breach or fail to perform their obligations under the Contractual Arrangements. If we had direct ownership of our PRC Operating Entities, we would be able to exercise our rights as a shareholder to effect changes in its boards of directors of our PRC Operating Entities, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management and operational level. Under the Contractual Arrangements, we would need to rely on rights of WFOE under the power of attorney to effect such changes, or designate new shareholders for the PRC Operating Entities.

If Wangchen Technology or its shareholders breached their obligations under the Contractual Arrangements or if we lose the effective control over our PRC Operating Entities for any reason, we may have to incur substantial costs and expend significant resources to enforce those arrangements and resort to litigation or arbitration under the terms of the Contractual Arrangements and rely on legal remedies under PRC laws. For instance, if the shareholders of Wangchen Technology were to refuse to transfer their equity interests in our PRC Operating Entities to us or our designee when we exercise the call option pursuant to the Contractual Arrangements, or if they were otherwise to act in bad faith toward us, we might have to take legal action to compel them to perform their respective contractual obligations. Furthermore, personal liabilities of the shareholders of Wangchen Technology may also subject the shareholding interest they hold in Wangchen Technology to court preservation actions or enforcement. The legal framework and system in China, particularly those relating to arbitration proceedings, is not as developed as other jurisdictions such as Hong Kong or the United States. As a result, significant uncertainties

---

## RISK FACTORS

---

relating to the enforcement of legal rights through arbitration, litigation and other legal proceedings remain in China, which could limit our ability to enforce the Contractual Arrangements and exert effective control over our PRC Operating Entities.

If Wangchen Technology or any of their shareholders fails to perform its respective obligations under the Contractual Arrangements, and we are unable to enforce the Contractual Arrangements, or suffer significant delay or other obstacles in the process of enforcing the Contractual Arrangements, our business and operations could be severely disrupted, which could materially and adversely affect our financial condition and results of operations.

**The shareholders of our PRC Operating Entities may have conflicts of interest with us, which may materially and adversely affect our business, financial condition and results of operations.**

Some of our shareholders are also shareholders of our PRC Operating Entities and thus, conflicts of interest between their dual roles in our Company and in our PRC Operating Entities may arise.

Although we have some existing protections over potential conflicts of interest between these individuals and our Company, we cannot assure you that when conflict of interest arise, these individuals will act in the best interests of our Company or that conflicts of interest will be resolved in our favour. In the event of any such conflicts of interest, these individuals may breach or cause Wangchen Technology to breach or refuse to renew the Contractual Arrangements that allow us to effectively control and receive economic benefits from the PRC Operating Entities. If we cannot resolve any conflicts of interest or disputes between us and these shareholders of Wangchen Technology, we would have to rely on legal proceedings, which may be expensive, time-consuming and 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 Wangchen Technology and their 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 financial condition and results of operations and damage our reputation.

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

The Contractual Arrangements are governed by PRC laws and provide for dispute resolution by way of arbitration in the PRC. The Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of Wangchen Technology, injunctive relief and/or winding up of Wangchen Technology. In addition, the Contractual Arrangements contain provisions to the effect that courts in Hong Kong, the Cayman Islands and courts in other countries with jurisdiction are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal.

---

## RISK FACTORS

---

However, we have been advised by our PRC Legal Advisers that the abovementioned provisions contained in the Contractual Arrangements may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final liquidation order to preserve the assets of or any equity interest in our PRC Operating Entities in case of disputes. Therefore, such remedies may not be available to us, notwithstanding the relevant contractual provisions contained in the Contractual Arrangements. In addition, our PRC Legal Advisers are of the view that, even though the Contractual Arrangements provide that overseas courts such as Hong Kong and the Cayman Islands may grant and/or enforce interim remedies in support of the arbitration, such interim remedies (even if so granted by courts in Hong Kong, the Cayman Islands or courts in other countries with jurisdiction in favour of an aggrieved party) may not be recognised or enforced by PRC courts. PRC laws generally do not allow an arbitral body to grant an award of transfer of assets of or an equity interest in the PRC Operating Entities in favour of an aggrieved party. As a result, in the event that Wangchen Technology or any of its shareholders breaches any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and if we are unable to enforce the Contractual Arrangements, our ability to exert effective control over our PRC Operating Entities and conduct our business could be materially and adversely affected.

**We may lose the ability to use and enjoy assets held by our PRC Operating Entities that are material to our business operation and if our PRC Operating Entities declares bankruptcy or becomes subject to a dissolution or liquidation proceeding.**

Our PRC Operating Entities holds certain assets that are important to our business operations. Our Contractual Arrangements with Wangchen Technology and its shareholders contain terms that specifically obligate their shareholders to ensure the valid existence of Wangchen Technology and that Wangchen Technology may not be voluntarily liquidated. However, in the event the shareholders breach this obligation and voluntarily liquidate Wangchen Technology, or Wangchen Technology declares bankruptcy, and all or part of its assets become subject to liens or rights of third-party creditors, or is otherwise dissolved, we may be unable to continue some or all of our business operations, which could materially and adversely affect our business, financial condition and results of operations. Furthermore, if Wangchen Technology undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

**The Contractual Arrangements between WFOE and Wangchen Technology and the Registered Shareholders may subject our Group to increased income tax due to the different income tax rates applicable to WFOE and our PRC Operating Entities, which may adversely affect our business, financial condition and results of operations.**

Under the Contractual Arrangements, our PRC Operating Entities are required to pay to WFOE service fees that equal to the profit attributable to Wangchen Technology, and any other distributions of Wangchen Technology from, any of its subsidiaries in any given year but without taking into account the service fee payable under the agreement and after



---

## RISK FACTORS

---

offsetting the prior-year loss (if any), and deducting such amounts as required for statutory reserves, necessary costs and expenditures of operations and tax of Wangchen Technology and its subsidiaries (as the case may be) in any given year. WFOE has the right to adjust the level and/or amount of the service fees payable by Wangchen Technology based on the actual service scope and with reference to the operating conditions and expansion needs of Wangchen Technology. Such service fee payments to WFOE reduce our PRC Operating Entities’ taxable income and correspondingly increase the taxable income of WFOE, which, due to the different income tax rates applicable to WFOE and our PRC Operating Entities, have affected and may continue to affect our business, financial condition and results of operations, particularly, our income tax expenses and net profit on a consolidated basis.

Despite that WFOE enjoyed a preferential income tax rate for the year ended December 31, 2021 and the six months ended June 30, 2022 under the “Preferential Corporate Income Tax Treatment for Qianhai Shenzhen — Hong Kong Modern Service Industry Cooperation Zone”, we cannot assure you that WFOE will continue to enjoy such preferential income tax rate. In the event that the higher income tax rate is applicable to WFOE than our PRC Operating Entities after the Contractual Arrangements in the future, if our PRC Operating Entities transfers the before-tax profits of Wangchen Technology to WFOE, such transfer may result in increased income tax expenses for our Group on a consolidated basis, which may materially and adversely affect our business, financial condition and results of operations, particularly, our net profit and net profit margin.

**The Contractual Arrangements entered into among WFOE and Wangchen Technology and the Registered Shareholders may be subject to scrutiny by the PRC tax authorities and any transfer pricing adjustment or any finding that we or Gala Sports HK owe additional taxes could substantially reduce our consolidated net income and the value of your [REDACTED].**

Under the Contractual Arrangements among WFOE and Wangchen Technology and the Registered Shareholders, Wangchen Technology will transfer substantially all of the profit of Gala Sports HK to WFOE (after offsetting the prior-year loss (if any), deducting such amounts as required for statutory reserves, necessary costs and expenditures of operations and tax of Wangchen Technology in any given year), which will substantially reduce Wangchen Technology’s taxable income. These arrangements and transactions are related party transactions which must be conducted on an arm’s length basis under applicable PRC tax rules. In addition, under PRC laws and regulations, arrangements and transactions among related parties may generally be subject to audit or scrutiny by the PRC tax authorities within ten years after the taxable year when the arrangements or transactions are conducted. As a result, the determination of service fees and other payments to WFOE by our PRC Operating Entities under the Contractual Arrangements may be challenged and deemed not in compliance with such tax rules. We could face material and adverse tax consequences if the PRC tax authorities determine that the Contractual Arrangements were not entered into on an arm’s-length basis and therefore adjust the taxable income of Wangchen Technology in the form of a transfer pricing adjustment which refers to the prices that one member of a group of affiliated corporation’s charges to another member of the group for goods, assets, services, financing or the use of intellectual property. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by Wangchen

---

## RISK FACTORS

---

Technology, which could in turn increase Wangchen Technology’s tax liabilities. Any such adjustment could result in a higher overall tax liability of our Group. In addition, the PRC tax authorities may impose late payment fees and other penalties on Gala Sports HK for any unpaid taxes. Our consolidated net income may be materially and adversely affected if Wangchen Technology’s tax liabilities increase or if it is subject to late payment fees or other penalties.

**Our exercise of the option to acquire equity interests in and/or the assets of Wangchen Technology may be subject to certain limitations and the ownership transfer may subject us to substantial costs.**

By virtue of our Contractual Arrangements, WFOE (or its designee) has the exclusive right to purchase all or any part of the equity interests in each of Wangchen Technology from its shareholders for free or at nominal consideration or such minimum purchase price permitted under PRC laws and regulations, unless the relevant governmental authorities require valuation of the equity interest, the parties shall negotiate in good faith and make adjustments based on the valuation to comply with the requirements of PRC laws and regulations. WFOE also has the exclusive right to purchase all or any part of the assets in each of Wangchen Technology for free or at nominal consideration or such minimum purchase price permitted under PRC laws and regulations, unless the relevant governmental authorities require valuation of the assets, the parties shall negotiate in good faith and make adjustments based on the valuation to comply with the requirements of PRC laws and regulations. In the event of such transfer, the minimum purchase permitted by PRC law may be substantially higher than the aforesaid actual capital contributions in case of purchasing the equity interests, or the net book value of relevant assets, or the competent tax authority may require Gala Sports HK (as transferor of the relevant assets) to pay enterprise income tax, value-added tax and other applicable taxes with reference to the fair value of such assets instead of the price as stipulated under the Contractual Arrangements, in which case Gala Sports HK may be subject to a substantial amount of tax and our financial condition may be materially and adversely affected.

**Uncertainties exist with respect to the interpretation and implementation of the newly enacted PRC Foreign Investment Law 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 approved the Foreign Investment Law (《外商投資法》), which came into effect on January 1, 2020 and replace the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law (《中華人民共和國中外合資經營企業法》), the Sino-foreign Cooperative Joint Venture Enterprise Law (《中華人民共和國中外合作經營企業法》) and the Wholly Foreign-Owned Enterprise Law (《中華人民共和國外資企業法》), together with their implementation rules and ancillary regulations. On December 26, 2019, the State Council promulgated the Implementation Rules to the Foreign Investment Law (《外商投資法實施條例》), which came into effect on January 1, 2020. The Foreign Investment Law embodies an expected PRC regulatory trend to rationalise its foreign investment regulatory regime in line with the prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, since it is relatively new, uncertainties still exist in relation to its interpretation and

---

## RISK FACTORS

---

implementation. For instance, under the Foreign Investment Law, “foreign investment” refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in China. Though it, together with the Implementation Regulations on the Foreign Investment Law, both do not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangement would not be interpreted as a type of indirect foreign investment activities under the definition in the future. In addition, the definition contains a catch-all provision which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a form of foreign investment. In any of these cases, it will be uncertain whether our Contractual Arrangements will be deemed in violation of the market access requirements for foreign investment under PRC laws. Furthermore, if future laws, administrative regulations or provisions prescribed by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we are able to complete such actions in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure, corporate governance and business operations.

### RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

**The rapidly evolving PRC regulatory environment of the mobile games industry could impact our ability to launch and publish new games and maintain our financial performance going forward.**

*(i) Anti-addiction Notice*

In July 2005, the MOC and the Ministry of Information Industry of the PRC (later superseded by the MIIT) jointly issued an opinion which requires online game operators to develop systems and software for identity certification, to implement anti-addiction modifications to game rules and to restrict players under 18 years of age from playing certain games. Subsequently, in August 2005, GAPP (currently known as the National Administration of Press and Publication National Copyright Bureau), or the NAPP, proposed an online game anti-addiction system that would have reduced and eliminated experience points that a user can accumulate after three and five hours of consecutive playing, respectively. In March 2006, GAPP amended its proposal to require players to register with their real names and identity card numbers and to apply the anti-addiction system only to players under 18 years of age.

In April 2007, several governmental authorities, including the GAPP and the MOE, jointly issued the Notice Regarding the Implementation of Anti-addiction System on Online Games in Protecting the Physical and Mental Health of Minors (《關於保護未成人身心健康實施網絡遊戲防沉迷系統的通知》) requiring all Chinese online game operators to adopt an “anti-addiction compliance system” in an effort to curb addiction to online games by minors, the Anti-addiction Notice, which is annexed to the Standards Regarding the

---

## RISK FACTORS

---

Development of Anti-addiction System on Online Games (《網絡遊戲防沉迷系統開發標準》) and the Proposal Regarding the Authentication of Real Names for Anti-addiction System on Online Games (《網絡遊戲防沉迷系統實名認證方案》). Under the anti-addiction compliance system, three hours or less of continuous play by minors, defined as game users under 18, is considered “healthy”, three to five hours is defined to be “fatiguing” and five hours or more is defined to be “unhealthy”. Game operators, including our Company, are required to reduce the value of game benefits for minor users by half when those users reach the “addiction” level, and to zero when they reach the “unhealthy” level. In July 2011, these governmental authorities further issued the Notice on Initiating the Real-name Authentication for Online Game Addiction Prevention (《關於啟動網絡遊戲防沉迷實名驗證工作的通知》), which provides, among other things, that the relevant authorities should strengthen the implementation of authentication of real names for anti-addiction system in online games (but excluding mobile games). This system allows game operators to identify which users are minors. It is unclear whether these restrictions would be expanded to apply to adult users and mobile games in the future. In addition to the provisions of the foregoing notices, the NAPP does not require mobile games to be equipped with the anti-addiction compliance system in order to be approved in practice. The Service Guidance for the Approval of Publishing Domestic Online Games (《出版國產網絡遊戲作品審批事項服務指南》) updated by NAPP in December 2019 further clarifies that, the introduction of the adopted anti-addiction system and the evidential documents of the real-name authentication procedures are required for applying for publishing online games excluding mobile names temporarily. As such, we believe that anti-addiction compliance system is not a compulsory requirement for mobile games, and therefore did not implement any anti-addiction system in our mobile game products. However, we cannot assure you that the governmental authorities will not subsequently take a view contrary to our understanding. Failure to comply with the requirements under the Anti-addiction Notice may subject us to penalties, including but not limited to suspension of our operation of online game products, revocation of the license and approvals for our operations, rejection or suspension of our applications for approvals, licenses or filings for any new game product, or prohibition from operating any new game product. Further, more stringent government regulations that may be promulgated in the future, including stricter anti-addiction rules, could discourage users from playing our game products, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

### ***(ii) Implementation Program on Prevention of Juveniles Myopia and Online Gaming Addiction***

The regulatory environment of the mobile gaming industry is evolving rapidly. On August 30, 2018, eight PRC regulatory authorities at national government level, including the NRTA, NAPP and the MOE, released the Implementation Program on Comprehensive Prevention and Control of Adolescent Myopia (《綜合防控兒童青少年近視實施方案》). As a part of the plan to prevent myopia among children, the Implementation Program on Prevention of Juveniles Myopia plans to (i) regulate the number of new online games and (ii) restrict the amount of time juveniles spend playing on electronic devices. On October 25, 2019, the NAPP promulgated the Notice on Preventing Minors from Indulging in Online Games, according to which the length of minors’ use of online games should be strictly

---

## RISK FACTORS

---

controlled. It requires all online game users to register their identification information. The total length of time for minors to access online games must be limited on a daily basis. Every day from 22:00 to 8:00 the next day, online game companies are not permitted to provide game services to minors in any form. Game services provided to minors must not exceed 3 hours per day on public holidays and 1.5 hours on other days. In addition, online transactions are capped monthly at RMB200 or RMB400, depending on a minor’s age.

On August 30, 2021, the NAPP issued the Notice on Further Strengthening Regulation to Effectively Prevent Online Gaming Addiction among Minors (《關於進一步嚴格管理切實防止未成年人沉迷網絡遊戲的通知》), which took effect on September 1, 2021. This Notice further strengthens the measures on providing online game services to minors in response to the growing concern over gaming addiction among minors. It sets out a series of requirements and restrictions regarding the operation of online games, including (i) all online game companies (including platforms providing online game services) can only provide one hour of online game services to minors between 20:00 to 21:00 on Fridays, weekends and statutory holidays, and are not allowed to provide online game services in any form to minors in any other time, (ii) the requirements for real-name registration and login of online game user accounts shall be strictly implemented, (iii) publishing authorities at all levels shall strengthen their supervision and inspection of online game companies in terms of, among other situations, the implementation of the time frame and duration of online game services, the real-name registration and login, and paid services compliance, and (iv) families, schools and other social parties shall be actively guided to create a good environment conducive to the healthy growth of minors, to perform the guardianship duty to minors, to strictly enforce on minors the rules on the time frame and duration of playing online games, etc. Our Group shall make sure there are effective systems in place to prevent minors from playing games for longer than one hour or on days other than Fridays, weekends and statutory holidays. Our Group confirms that such systems are already in place as at the Latest Practicable Date. A warning pops up at the beginning of the games and users are informed of the restrictions on minors’ usage of the online game services and minors will not be able to play any of our Group’s online games for longer than one hour or outside the specified time frame on days other than Fridays, weekends and statutory holidays. As advised by our PRC Legal Advisers, our Group is currently in compliance of this Notice. Our Company believes that this Notice is not expected to have any significant impact on our Group’s business, operations and financial performance because, to the best knowledge of the Directors, most of the core paying users of our Group’s games are not minors. However, we cannot assure you that we are able to anticipate or comply with any new or potential requirements on providing online game services to minors. Any failure or perceived failure by us to comply with or to accurately anticipate the application, interpretation or legislative expansion of any new policies or regulatory requirements thereof could result in proceedings or actions against our Group by the relevant government authorities and negatively affect our business, operations and financial performance.



---

## RISK FACTORS

---

On March 14, 2022, the CAC published the revised Regulations on the Online Protection of Minors (Draft for Comments) (《未成年人網絡保護條例(徵求意見稿)》) (the “**Minor Protection Draft**”), which was open for public consultations. The Minor Protection Draft sets out in details the responsibilities of the online platforms, online product or service providers, personal information processors, and manufacturers and sellers of smart terminal products.

As advised by our PRC Legal Advisers, in addition to the requirements promulgated in the previous regulations such as the anti-addiction system and real-name authentication procedures, the Minor Protection Draft further stipulates that the online product or service providers shall comply with the following requirements: (1) establish a comprehensive anti-addiction policy, and promptly amend content, function or rules that may lead to minors’ addiction; (2) prevent and discourage unhealthy values such as with excessive focus on viewership; (3) continue to enforce the spending limits; (4) periodically release updates on anti-addiction compliance; (5) implement game rules that are designed to prevent minors from addicting to online games; (6) implement appropriate-age reminding system, categorize games, clarify the applicable age group for the game, and label conspicuous warnings on the downloading page, user registration and login page.

If our Company fails to comply with the abovementioned requirements, the competent authorities can order us to make rectifications, issue a warning, and confiscate the illegal gains, as well as impose monetary fines between RMB100,000 to RMB1,000,000 if the illegal gains are below RMB1,000,000 or if there are no illegal gains, and monetary fines between one and 10 times the illegal gains if the illegal gains are over RMB1,000,000. If we refuse to make rectifications or the circumstances are serious, our Company may be ordered to suspend our relevant business, cease our business for rectification, close our website, or revoke our business license or relevant permits. The responsible managerial personnel and other directly liable persons of our Company could be imposed licenses monetary fines between RMB10,000 to RMB100,000. If our business licenses or relevant permits are revoked, such revoked licenses and permits cannot be reapplied within five years and the responsible managerial personnel and other directly liable persons could be banned from engaging in the business of similar online products or services for five years. However, there remain uncertainties regarding the further interpretation and implementation of the Minor Protection Draft. As of the Latest Practicable Date, the Minor Protection Draft has not been formally adopted.

---

## RISK FACTORS

---

### *(iii) Data security regulations*

The CAC, the MIIT, the MPS and the SAMR jointly promulgated the Provisions on the Scope of Essential Personal Information for Common Types of Mobile Internet Applications (《常見類型移動互聯網應用程序必要個人信息範圍規定》) with effective date from May 1, 2021, which clarifies the scope of Essential Personal Information for Common Types of Applications. In relation to online game applications, the basic function and service is ‘provision of online game products and services’, where the necessary personal information is mobile phone number of registered users. In addition, internet application operators shall not refuse users from using the basic functions of the internet applications on the ground that users do not agree to the collection of unnecessary personal information. As such, online game operators shall allow users to play the games so long as the users could provide their mobile phone numbers.

On June 10, 2021, the Standing Committee of the National People’s Congress further issued the Data Security Law of the People’s Republic of China (《中華人民共和國數據安全法》) (the “**Data Security Law**”), which took effect on September 1, 2021. Under the Data Security Law, the scope of data covers a wide range of information records generated from all aspects of production, operation and management of government affairs and enterprises in the process of the gradual transformation of digitalization. We are required to, including but not limited to, (i) collect data in a legitimate and proper manner, (ii) establish and improve the whole-process of data security management rules, (iii) organize and implement data security trainings, (iv) take appropriate technical measures and other necessary measures to protect data security, (v) conduct data processing activities on the basis of the graded protection system for cybersecurity, (vi) strengthen the monitoring of the data processing activities, (vii) take remedial measures immediately in case of discovery of risks regarding data security related defects or bugs, and (viii) undertake to adopt responding measures immediately, and disclose to users and report to the competent authorities in a timely manner in case of occurrence of data security incidents.

On August 20, 2021, the Standing Committee of the National People’s Congress issued the PRC Personal Information Protection Law (《中華人民共和國個人信息保護法》) (the “**Personal Information Protection Law**”), which became effective on November 1, 2021 and sets out detailed rules on the personal information protection and relevant legal responsibilities thereunder, including but not limited to the scope of personal information under protection, the manner of processing personal information, the establishment of rules for processing personal information, and the individual’s rights and the information processor’s obligations in processing personal information. The Personal Information Protection Law also strengthens the penalty for illegal processing of personal information.

As advised by the PRC Legal Advisers, we may need to enhance our internal control mechanisms and incur additional costs to ensure our compliance with the relevant new or potential requirements. Any failure or perceived failure by us to comply with or to accurately anticipate the application, interpretation or legislative expansion of any policies or regulatory requirements could result in proceedings or actions against our Group by the

---

## RISK FACTORS

---

relevant government authorities and such proceedings or actions may subject our Group to penalties, negative publicity and further cost and disruption to our business for rectifications and changes.

On December 28, 2021, the CAC and 12 other government authorities published a new version of the Measures for Cybersecurity Review ((《網絡安全審查辦法》) the “**Measures for Cybersecurity Review 2022**”), which came into effect on February 15, 2022. The Measures for Cybersecurity Review 2022 provides that the relevant operators shall apply with the Cybersecurity Review Office of CAC for a cybersecurity review under the following circumstances: (i) internet platform operators holding over one million individuals’ personal information aiming for foreign listing, (ii) operators of “critical information infrastructure” that intend to purchase internet products and services that will or may affect national security, or (iii) internet platform operators carrying out data processing that affect or may affect national security. As advised by our PRC Legal Advisers, the term “foreign listing” under Measures for Cybersecurity Review 2022 is likely to exempt listing in Hong Kong from the mandatory obligation of ex ante declaration of cybersecurity review in the absence of affecting or potentially affecting national security. However, there is not any further explanation or interpretation for “affect or may affect national security” under the Measures for Cybersecurity Review 2022, and the PRC government authorities may have wide discretion in the interpretation and enforcement of the Measures for Cybersecurity Review 2022.

On November 14, 2021, the CAC published the Regulations on Administration of Internet Data Security (Draft for Comments) ((《網絡數據安全管理條例(徵求意見稿)》) (the “**Draft CAC Regulations on Internet Data Security**”), which provides that data processors conducting the following activities shall apply for cybersecurity review: (i) merger, reorganization or division of internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests affects or may affect national security; (ii) foreign listing of data processors processing over one million individuals’ personal information; (iii) listing in Hong Kong which affects or may affect national security; or (iv) other data processing activities that affect or may affect national security. There have been no clarifications from the authorities as of the Latest Practicable Date as to the standards for determining such activities that “affects or may affect national security” and there is no timetable as to when it will be enacted. As such, substantial uncertainties exist with respect to the enactment timetable, final content, interpretation and implementation, including the standards for determining whether a listing in Hong Kong “affects or may affect national security.” The Draft CAC Regulations on Internet Data Security, if enacted as proposed, may materially impact our capital raising activities. If our [REDACTED] is considered a [REDACTED] in Hong Kong that affects or may affect national security, we may be required to apply for cybersecurity review, but there can be no assurance that we are able to obtain approval from the regulatory authorities in a timely manner, or at all. Any failure to obtain such approval or clearance from the regulatory authorities could materially constrain our liquidity and have a material adverse impact on our business operations and financial results, especially if we need additional capital or financing.

---

## RISK FACTORS

---

The interpretation and application of these cybersecurity laws, regulations and standards are still uncertain and evolving, especially the Measures for Cybersecurity Review 2022 and the Draft CAC Regulations on Internet Data Security. We cannot assure you that relevant government authorities will not interpret or implement these and other laws or regulations in ways that may negatively affect us.

**Compliance with the laws or regulations governing virtual currency, online payment or money laundering may result in us having to obtain additional approvals or licenses or change our current business practice, or be subject to certain penalties.**

On January 25, 2007, the MPS, MCT, MIIT and GAPP jointly issued a circular regarding online gambling which has implications for the use of virtual currency. The circular (a) prohibits online game operators from charging commissions in the form of virtual currency in relation to the winning or losing of games; (b) requires online game operators to impose limits on the use of virtual currency in guessing and betting games; (c) bans the conversion of virtual currency into real currency or property; and (d) prohibits services that enable game players to transfer virtual currency to other players. On June 4, 2009, MOC and MOFCOM jointly issued the Notice on Strengthening Administration on Online Game Virtual Currency (《關於加強網絡遊戲虛擬貨幣管理工作的通知》) (the “**Online Game Virtual Currency Notice**”). The online game prohibits online game operators from setting game features that involve the direct payment of cash or virtual currency by players for the chance to win virtual items or virtual currency based on random selection through a lucky draw, wager or lottery. Besides, the notice also prohibits game operators from issuing currency to users through means other than purchases with legal currency.

According to the Interim Administrative Measures for Online Games (《網絡遊戲管理暫行辦法》) (the “**Online Game Measures**”) that was in force from August 2010 to July 2019, an online game operator who issues or provides virtual currency trading services must obtain a license for internet culture operation from the MCT. Further, the Online Game Measures also provided, among other things, that virtual currency issued by online game operators may be only used to exchange its own online game products and services and may not be used to pay for the products and services of other entities. However, if our current or future operations are found to violate the Online Game Virtual Currency Notice, Online Game Measures or any other related regulations, we may be subject to penalties, including mandatory corrective measures and fines, and therefore our business and financial condition, operation results and business prospects may be materially and adversely affected.

**Any administrative changes in the regulatory government authorities or difference in interpretation of applicable laws and regulations may impact on the market conditions which could in turn affect our business, financial condition and results of operations.**

Our operations of online games are subject to the supervision and administration of multiple government authorities in the PRC. Any administrative changes in the regulatory government authorities may also impact on the market conditions which could in turn affect our business, financial condition and results of operations. In early 2018, the SAPPRFT, being the government authority responsible for granting pre-approval of

---

## RISK FACTORS

---

publication of domestic online games, was replaced by NRTA according to the institutional restructuring plan of the State Council. Since then, it was noticed that no new game had been granted by the relevant government authority during April 2018 to December 2018, until the assessment and pre-approval procedures resumed in December 2018. It is uncertain whether there will be any suspension to the similar effect in the future. In addition, there is also uncertainty as to the application for the pre-approval requirement for any of our new games to be launched. Any further suspension, or any delay in such application process, could impact our capability of launching new games, which could materially and adversely affect our business, financial condition and results of operations.

**The trade war between the U.S. and the PRC may adversely affect our business, financial condition and results of operation.**

A trade war has been initiated between the U.S. and the PRC. The U.S. government has sought to blacklist certain PRC technology companies, which would make it difficult for those companies to conduct business with U.S. enterprises. Among the blacklisted PRC technology companies, some are PRC mobile phone providers which utilise major game distribution. In complying with the U.S. government directives, some of the distribution platforms have suspended certain software and technical services to certain PRC mobile phone providers which would limit the holders of those mobile phones to access of the distribution platforms. As some of our game users would download our games through the third-party distribution platforms on those PRC mobile phones, restriction of access to the third-party distribution platforms on those PRC mobile phones may result in loss or slower growth of our user base and as a result of which our business, financial condition and results of operations could be adversely affected.

**Failure to make adequate contributions to various employee benefit plans as required by PRC laws and regulations may subject us to penalties.**

Pursuant to relevant PRC laws and regulations, employers in the PRC are required to make social insurance contributions and housing provident fund contributions for their employees, and entities failing to make contributions may be ordered to settle the outstanding contributions within a prescribed time limit and subject to penalties or fines. During the Track Record Period, we were not in strict compliance with the contribution requirements in relation to our employees. For details of the non-compliance incidents and the remedial measures taken, see the section headed “Business — Legal Proceedings and Compliance — Non-compliance Incidents with respect to Social Insurance and Housing Provident Fund Contributions” to this document. We cannot assure you that we will not be subject to penalties or fines imposed by the relevant PRC authorities as a result of such non-compliance incidents or be ordered to rectify such non-compliance incidents. Further, we cannot assure you that there will not be any employee complaint against us in relation to our failure to make full social insurance and housing provident fund contributions. Any such penalties, orders or complaints may harm our corporate image and may have an adverse effect on our financial condition and results of operations.



---

## RISK FACTORS

---

**Regulation and censorship of information disseminated over the internet in China may adversely affect our business financial condition and results of operations, and we may be liable for information displayed on, retrieved from or linked to our applications.**

China has enacted laws and regulations governing internet access and the distribution of news and other content, as well as products and services, through the internet. The PRC government prohibits information that it believes to be in violations of PRC laws from being distributed through the internet. The MIIT, the MCT and other competent government authorities have promulgated regulations that prohibit games from being distributed through the internet if the games contain content that is found to, among other things, propagate obscenity, gambling or violence, instigate crimes, undermine public morality or the cultural traditions of China, or compromise state security or secrets. It may be difficult to determine the type of content that may result in liability for us. If any of the games we offer were deemed to violate any such content restrictions, we would not be able to obtain the necessary government approval to continue such offerings and/or could be subject to penalties, including confiscation of income, fines, suspension of business, which would materially and adversely affect our business, financial condition and results of operations. We may also be subject to potential liability for unlawful actions of our users or for content we distribute that is deemed inappropriate. We may be required to delete content that violates PRC laws and report content that we suspect may violate PRC laws, which may reduce our user base, the amount of time our games are played or the purchases of virtual items in our games.

**The performance and reliability of the telecommunications networks and internet infrastructure in China will affect our business, financial condition and results of operations.**

With our headquarters and major operations based in China, we rely on wireless and landline telecommunications networks in China to conduct central management of user accounts and gameplay data, provide data transmission and communications, and monitor overall operational status of our games. The national networks in China are connected to the internet through international gateways controlled by the PRC government, which are the only channels through which a domestic user can connect to the internet. These international gateways may not support the demand necessary for the continued growth in internet traffic by users in China. We cannot assure you that the development of China’s information infrastructure will be adequate to support our operations and growth, especially when our games may need to accommodate more users as we grow our business. In addition, in the event of any infrastructure disruption or failure, we would have no access to alternative networks and services on a timely basis, if at all, which could have a material adverse effect on our business, financial condition and results of operations.

---

## RISK FACTORS

---

**Our business, financial condition and results of operations could be affected by the economic, political and social conditions as well as government policies of the PRC.**

We are primarily targeting China’s online game market and conduct a substantial part of our operations in the PRC. Accordingly, our business, financial condition and results of operations are, to a significant extent, subject to the economic, political and social conditions as well as government policies of the PRC. The PRC economy is different from the economies of other developed countries in many respects, including:

- its political structure;
- the amount and degree of the PRC government involvement and control;
- the growth rate and degree of development;
- the level and control of capital investment and reinvestment;
- control of foreign exchange; and
- allocation of resources.

The PRC economy has been affected by the economic reform and is transitioning to a more market-oriented economy. PRC government has implemented economic reform measures emphasising the utilisation of market forces and the reduction of state ownership of productive assets in the development of the PRC economy. However, the PRC government still owns a substantial portion of productive assets in China. In addition, the PRC government still plays a significant role in regulating industry development and exercising control over China’s economic growth. Therefore, we cannot predict whether changes in the PRC’s economic, political, social and legal conditions and government policies will have any adverse effect on our current or future business, financial condition and results of operations. For instance, it could negatively impact our business and financial condition if the PRC government implemented a number of measures intended to slow down certain segments of the economy, in particular the mobile applications industry, which would decrease our users’ expense on our offerings and slowdown the expanding of our user base.

Although the Chinese economy has grown significantly in the past decades, that growth may not continue and any slowdown may have a negative effect on our business. The overall Chinese economy affects our profitability, since expenditures on online entertainment products and services such as online games may decrease in a slowing economy. Any adverse changes in economic conditions in the PRC, in the policies of the PRC government or in the laws and regulations in the PRC, could have a material adverse effect on the overall economic growth of China and investment in the online game industry. Such developments could adversely affect our business, financial condition and results of operations, lead to reduction in demand for our services and adversely affect our competitive position.

---

## RISK FACTORS

---

**Uncertainties and changes in relation to the PRC legal system could adversely affect our business, financial condition and results of operations.**

We are a company incorporated under the laws of the Cayman Islands. Our major operations are conducted in the PRC and therefore regulated by the laws and regulations of the PRC. Unlike the common law system, the PRC legal system is based on written statutes with prior court decisions and judgements having limited precedential value. Additionally, PRC written statutes are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. The laws and regulations governing general economic matters and forms of foreign investment are promulgated since 1979 including laws relating to online game development and operation. However, due to the fact that these laws and regulations have not been fully developed and because of the limited volume of published cases and non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree, sometimes a significant degree, of uncertainty.

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. Besides, the PRC administrative and court authorities have significant discretions in interpreting and implementing or enforcing statutory rules and contractual terms, 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 the PRC versus other more developed legal systems. In any event, we may receive less favorable interpretation of laws and regulations than our competitors. These uncertainties may affect our judgement 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 the PRC may result in diversion of resources and management’s attention, and therefore materially and adversely affect our business, financial condition and results of operations. We cannot predict future developments in the PRC legal system. We may be required to procure additional permits, authorisations and approvals for our operations, which we may not be able to obtain. Our inability to obtain such permits or authorisations may materially and adversely affect our business, financial condition and results of operations.

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

During the course of playing mobile games, users may acquire and accumulate virtual assets, such as special items, user experience grades and other features of their avatars. Such virtual assets can be important to users and have monetary value. In practice, virtual assets can be lost for various reasons, such as through unauthorized use of the game account of one user by other users and occasionally through data loss caused by a delay of network service, a network crash or hacking activities. However, currently, there is no PRC law or regulation specifically governing virtual assets property rights, so certain general laws and

---

## RISK FACTORS

---

regulations regarding civil rights may be applicable. Although PRC courts have issued a series of civil judgements of tort claims for virtual assets, there still is uncertainty as to who is the legal owner of virtual assets, how the ownership of virtual assets is protected by law, and whether a developer of online games such as us would have any liability to users or other interested parties (whether in contract, tort or otherwise) for the loss of virtual assets. In case of a loss of virtual assets, we may be sued by our users and held liable for damages, which may negatively affect our reputation and business, financial condition and results of operations. We have not been involved in any virtual assets related law suits. However, we cannot assure you that such law suits will not be brought against us in the future.

Based on several judgements by PRC courts regarding the liabilities of game operators for loss of virtual assets by users, the courts have generally required the game operators to provide well-developed security systems to protect such virtual assets owned by users and have required some game operators to return the virtual items or be liable for the loss and damage incurred therefrom if the online game operators have been determined to be in default or held liable for infringement of users’ rights.

**Laws and regulations governing the internet industry and related businesses in China are evolving and may involve significant uncertainty.**

The PRC government extensively regulates the internet industry, including the foreign ownership of, and the licensing and permit requirements pertaining to, companies in the internet industry. These internet-related laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainty. With regard to the online game industry in China, various regulatory authorities of the PRC central government, such as the State Council, the MIIT, the State Administration for Market Regulation, the MCT, the NAPP, and the MPS, are empowered to promulgate and implement regulations governing various aspects of the internet and online game industries. There exists potential inconsistencies and ambiguities in the regulations promulgated by different government authorities. Our game publisher partners may be required to obtain applicable permits or approvals from different regulatory authorities in order to provide online game services. As a result, it may be difficult to determine what actions should be taken or what omissions may be deemed to be in violation of applicable laws and regulations, and we must screen our game publisher partners’ qualifications before entering into cooperative arrangements.

Risks and uncertainties relating to PRC regulation of internet businesses include new laws, regulations or policies that may be promulgated or announced that will regulate internet activities, including online game businesses. If these new laws, regulations or policies are promulgated, additional licenses may be required for our operations. If our operations do not comply with these new regulations after they become effective, or if we fail to obtain any licenses required under these new laws and regulations, we could be subject to penalties and our business operations could be disrupted.

There are uncertainties relating to the regulation of the internet industry in China, including evolving licensing requirements. This means that permits, licenses or operations of some of our companies may be subject to challenges, or we may fail to obtain or renew

---

## RISK FACTORS

---

permits or licenses that applicable regulators may deem necessary for our operations. If we fail to maintain or obtain the required permits or licenses, we may be subject to various penalties, including fines and discontinuation of, or restriction on, our operations. Any penalty may disrupt our business operations and may have a material adverse effect on our business, financial condition and results of operations.

The interpretation and application of existing or future PRC laws, regulations and policies relating to the internet industry have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, internet businesses in China, including our business. We cannot assure you that we will be able to maintain our existing licenses or obtain any new licenses required under any existing or new laws or regulations. There are also risks that we may be found to be in violation of existing or future laws and regulations given the uncertainty and complexity of China’s regulation of internet businesses. If current or future laws, rules or regulations regarding internet-related activities are interpreted in such a way as to render our ownership structure and/or business operations illegal or non-compliant, our business, financial condition and results of operations could be severely impaired and we could be subject to severe penalties.

**Fluctuation in the value of the RMB and other currencies may have a material adverse impact on your [REDACTED].**

We are exposed to currency risk resulting from foreign currency transactions and recognized assets and liabilities denominating in a currency other than RMB, which is the functional currency of the major operating companies within our Group. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit or loss on a net basis. Therefore, fluctuations in the exchange rate between our functional currency and the other currencies could materially impact our reported results of operations and distort period to period comparisons. During the Track Record Period, we recorded a net exchange gain of approximately RMB0.1 million, RMB0.1 million and RMB2.2 million for the year ended December 31, 2019 and 2021 and the six months ended June 30, 2022, respectively as compared to a net exchange loss of approximately RMB5.2 million for the year ended December 31, 2020. The net exchange loss of approximately RMB5.2 million for the year ended December 31, 2020 was a result of the exchange rate fluctuation between US\$ and RMB for our U.S. dollar cash deposits equivalent to an amount of approximately RMB67.4 million as at December 31, 2020.

As we expand our operations in China and overseas market, we expect to incur more expenditures and revenue denominated in RMB and U.S. dollar. However, the [REDACTED] of the [REDACTED] and any dividends we pay on our Shares will be in



---

## RISK FACTORS

---

Hong Kong dollars. Fluctuations in the exchange rate between the RMB and the Hong Kong dollar or the U.S. dollar may affect the value of our [REDACTED] of the [REDACTED] and result to incur foreign exchange losses and adversely affect the value of, and any dividends issued by our PRC Operating Entities. Our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currency. In addition, our financial results in Hong Kong dollar or U.S. dollar terms may be affected by appreciation or depreciation in the value of the RMB relative to the Hong Kong dollar or U.S. dollar although without giving effect to any underlying change in our business or results of operations.

The value of RMB against the Hong Kong dollar, the U.S. dollar and other currencies fluctuates, is subject to changes resulting from the PRC government’s policies and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. The RMB has been unpegged from the U.S. dollar since July 2015 and, although the People’s Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rate, the RMB 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 RMB exchange rates and lessen intervention in the foreign exchange market in the future.

We also generate revenue from users in countries and regions outside China, who make in-game purchase in foreign currencies through third-party payment vendors. Therefore, we bear foreign exchange risk from various currency exposures which may affect our business, financial condition and results of operation.

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

**The foreign currency conversion controlled by the PRC government may limit our foreign exchange transactions, including our ability to pay dividends and other obligations, and may affect the value of our Shares.**

The PRC government imposes controls on the convertibility of the RMB into foreign currencies through 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 the PRC that have the licenses to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be filed with or approved in advance by the SAFE.

---

## RISK FACTORS

---

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, we cannot assure you 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 RMB into any foreign exchange for any of the above purposes, our capital expenditure plans, and even our business, financial condition and results of operations, may be materially and adversely affected.

**We rely on dividends and other distributions from WFOE to fund our cash and financing requirements, and any limitation on the ability of our subsidiaries to make payments to us could materially and adversely affect our ability to conduct our business.**

As an offshore holding company, we rely in part on dividends from WFOE for our cash requirements, dividends payments and other distributions to our Shareholders, and to service any debt that we may incur and pay our operating expenses. The payment of dividends by entities organised in China is subject to limitations. In particular, PRC regulations permit our subsidiaries to pay dividends only out of their accumulated profits, if any, as determined in accordance with Chinese accounting standards and regulations. In addition, WFOE are required each year to set aside at least 10% of its annual after-tax profits (as determined under PRC accounting standards) into its statutory reserve fund until the aggregate amount of that reserve reaches 50% of such entity’s registered capital. These reserves are not distributable as cash dividends.

If Wangchen Technology incur debt on their own behalf, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Any limitation on the ability of our subsidiaries to distribute dividends or other payments to us could materially and adversely limit our ability to grow, make investments or acquisitions, pay dividends and otherwise fund and conduct our business.

**Dividend payable by us to our foreign [REDACTED] and gains on the sale of our Share may become subject to income tax under the PRC tax laws.**

Under the EIT Law and its implementation rules, subject to any applicable tax treaty or similar arrangement between the PRC and your jurisdiction of residence that provides for a different income tax arrangement, PRC withholding tax at the rate of 10% is normally applicable to dividends from PRC sources payable to investors that are non-PRC resident enterprises, which do not have an establishment or place of business in China, or which have such an establishment or place of business but the relevant income is not effectively connected with the establishment or place of business. Similarly, any gain realised on the transfer of shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC unless a treaty or similar arrangement otherwise provides. Under the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》) and its implementation rules, dividends from sources within China paid to foreign individual investors who are not PRC residents are generally subject to a

---

## RISK FACTORS

---

PRC withholding tax at a rate of 20% and gains from PRC sources realised by such investors on the transfer of shares are generally subject to 20% PRC income tax, in each case, subject to any reduction or exemption set forth in applicable tax treaties and PRC laws.

It is unclear whether dividends we pay with respect to our Shares, or the gain realised from the transfer of our Shares would be treated as income derived from sources within China and as a result be subject to PRC income tax if we are considered a PRC resident enterprise. If we are considered a PRC resident enterprise for tax purposes, the dividends we pay to our shareholders are regarded as income derived from sources within the PRC, and we may be required to withhold a 10% PRC withholding tax for the dividends we pay to our [REDACTED] who are non-PRC enterprise shareholders, or a 20% withholding tax for the dividends we pay to our [REDACTED] who are non-PRC individual shareholders, including the holders of our Shares. In addition, our non-PRC Shareholders may be subject to PRC tax on gains realised on the sale or other disposition of our Shares, if such income is treated as sourced from within China. It is unclear whether our non-PRC Shareholders would be able to claim the benefits of any tax treaties between their tax residence and China in the event that we are considered as a PRC resident enterprise. If PRC income tax is imposed on gains realised through the transfer of our Shares or on dividends paid to our non-resident [REDACTED], the value of your [REDACTED] in our Shares may be materially and adversely affected. Furthermore, our Shareholders whose jurisdictions of residence have tax treaties or arrangements with China may not qualify for benefits under such tax treaties or arrangements.

**Gala Technology (HK) and Gala Sports HK, our Hong Kong subsidiaries are subject to PRC withholding tax under the New Enterprise Income Tax Law and we may not be able to enjoy the preferential tax rate of 5%.**

Our Company was incorporated under the laws of the Cayman Islands and indirectly hold interests in two Hong Kong-incorporated subsidiaries, namely Gala Technology (HK) and Gala Sports HK, and upon completion of the Reorganization, our Company in turn directly or indirectly hold interests in WFOE and our PRC Operating Entities. Pursuant to the EIT Law and its implementation rules, dividends payable by a foreign-invested enterprise to its foreign corporate investors who are not deemed a PRC resident enterprise are subject to a 10% withholding tax, unless such foreign investor’s jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding tax arrangement. Under the Arrangement between the Mainland of the PRC and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Incomes (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》, the “**Arrangement**”), the arrangement shall apply to income derived on or after January 1, 2007 in mainland China, such dividend withholding tax rate is reduced to 5% for dividends paid by a PRC company to a Hong Kong-resident enterprise if such Hong Kong entity is a “beneficial owner” and such entity directly owns at least 25% of the equity interest of the PRC company. According to the fourth protocol of the aforementioned treaty, effective from December 2015, the reduction will not apply if the main purpose of the production or distribution of the proceeds involved is to obtain the aforementioned (reduction) interest. The Announcement on Issues Concerning “Beneficial

---

## RISK FACTORS

---

Owners” in Tax Treaties (《國家稅務總局關於稅收協定中“受益所有人”有關問題的公告》), which became effective in April 1, 2018, stipulates certain conditions under which a company may not be defined as a “beneficial owner” under the relevant tax treaty, and further requires non-resident taxpayers who wish to enjoy the treatment of “beneficial owners” under such tax treaties to submit certain report forms and materials when filing tax returns. If Gala Technology (HK) fails to preserve supporting documents when requested by the PRC tax authority to support its claim as beneficial owner to enjoy such treatment, and if our corporate and shareholding structure is viewed as deliberately arranged for acquiring the reduction interest, we may not be able to enjoy a preferential withholding tax rate of 5% and as a result dividend payable by our PRC subsidiaries to Gala Technology (HK) will be subject to withholding tax at the rate of 10%.

The EIT Law and EIT implementation rules also provide that if an enterprise incorporated outside China has its “de facto management bodies” within China, such enterprise may be deemed a “PRC resident enterprise” for tax purposes and be subject to an enterprise income tax rate of 25% on its global incomes. “De facto management body” is defined as the body that has the significant and overall management and control over the business, personnel, accounts and properties of an enterprise. On April 22, 2009, the SAT issued the Circular on Issues Concerning the Identification of Chinese-Controlled Overseas Registered Enterprises as Resident Enterprises in Accordance With the Actual Standards of Organizational Management (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》), or Circular 82, and partially amended on December 29, 2017. Announcement on Issues Concerning the Determination of Resident Enterprises Based on the Standards of Actual Management Institutions (《國家稅務總局關於依據實際管理機構標準實施居民企業認定有關問題的公告》), or the Circular 9, promulgated in January 2014, clarifies the certain criteria for the determination of the “de facto management bodies” for foreign enterprises controlled by PRC enterprises or PRC enterprise groups. Under Circular 82, a foreign enterprise is considered a PRC resident enterprise if all of the following apply: (1) the senior management and core management departments in charge of daily operations are located mainly within China; (2) decisions relating to the enterprise’s financial and human resource matters are made or subject to approval by organisations or personnel in China; (3) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholders’ meeting minutes are located or maintained in China; and (4) 50.0% or more of voting board members or senior executives of the enterprise habitually reside in China. Further to Circular 82, the SAT issued the Bulletin of the SAT on Printing and Distributing the Administrative Measures on Income Taxes of Resident Enterprises Incorporated outside Mainland China and Are Controlled by Chinese Enterprises (Trial Implementation) (《境外註冊中資控股居民企業所得稅管理辦法(試行)》), known as Bulletin 45, effective on September 1, 2011 and amended on June 1, 2015, October 1, 2016 and June 15, 2018 to provide more guidance on the implementation of Circular 82 and clarify the reporting and filing obligations of such “Chinese-controlled offshore incorporated resident enterprises.” Bulletin 45 provides for, among other matters, procedures for the determination of resident status and administration of post-determination matters, as well as competent tax authorities. However, Circular 82 and the Bulletin 45 apply only to offshore enterprises controlled by PRC enterprises, not those invested in or controlled by PRC individuals, like our Company. Currently there are no further detailed rules or precedents applicable to us regarding the procedures and specific criteria for determining “de facto management body” for the company of our type. We do not believe we or any of



---

## RISK FACTORS

---

our subsidiaries registered outside of China are a resident enterprise defined and regulated by the aforesaid regulation, as none of our shareholders is a PRC company or PRC corporate group. However, it remains unclear how PRC tax authorities will determine the tax residency status of companies like us. If the PRC authorities were to subsequently determine, or any future regulation provides, that we or any of our subsidiaries registered outside of China should be treated as a PRC resident enterprise, we or such subsidiaries would be subject to a 25% EIT on our global income, which will significantly increase our tax burden and could materially and adversely affect our business, financial condition and results of operations. Although Circular 82 and Bulletin 45 explicitly provide that the above standards apply to enterprises that are registered outside China and controlled by PRC enterprises or PRC enterprise groups, Circular 82 may reflect SAT’s criteria for determining the tax residence of foreign enterprises in general.

There remains significant uncertainty as to the interpretation and application of applicable PRC tax laws and rules by the PRC tax authorities, and the PRC tax laws, rules and regulations may also change. If there is any change to applicable tax laws and rules and interpretation or application with respect to such laws and rules, the value of your [REDACTED] in our shares may be materially affected.

**PRC regulations over loans to and direct investments in PRC entities by offshore holding companies may delay or prevent us from using the [REDACTED] of the [REDACTED] to make loans or additional capital contributions to WFOE and/or our PRC Operating Entities.**

Any funds we transfer to WFOE, either as a shareholder loan or as an increase in registered capital, are subject to approval by registration with relevant governmental authorities in China. According to the relevant PRC regulations on foreign invested enterprises, capital contributions made by an offshore holding company to its wholly-owned subsidiary, being a foreign-invested enterprise in China, require approvals from or make record filings with the MOFCOM or its local counterpart and register with the State Administration for Market Regulation or its local counterpart. In addition, any foreign loan procured by our PRC subsidiaries is required to be registered with the SAFE or its local branches, and our PRC Operating Entities may not procure loans exceeding the difference between its registered capital and its total investment amount as approved by or registered with the MOFCOM or its local branches. We may not obtain these government approvals or complete such registrations on a timely basis, or at all, with respect to future capital contributions or foreign loans by us to our PRC Operating Entities. If we fail to receive such approvals or complete such registration, our ability to use the [REDACTED] of the [REDACTED] to fund our operations in China may be negatively affected, which in turn could adversely affect WFOE’s liquidity and our ability to finance and expand our business.

On March 30, 2015, the SAFE issued the Circular on Reforming of the Management Method of the Settlement of Foreign Currency Capital of Foreign-Invested Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》), or SAFE Circular 19, which took effect as of June 1, 2015 and was amended on December 30, 2019 and replaced the Circular on the Relevant Operational Issues Concerning the Administration Improvement of the Payment and Settlement of Foreign Currency Capital of Foreign Invested Enterprises (《關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》), or SAFE Circular



---

## RISK FACTORS

---

142. SAFE Circular 19 launched a nationwide reform of the administration of the settlement of foreign exchange capitals of foreign-invested enterprises and allows foreign-invested enterprises to settle their foreign exchange capital at their discretion. On June 9, 2016, the SAFE promulgated the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》), or SAFE Circular 16. SAFE Circular 19 and SAFE Circular 16 continue to prohibit foreign-invested enterprises from, among other things, using Renminbi fund converted from their foreign exchange capitals for expenditures beyond their business scopes, making securities investment or other investments (except for banks’ principal-secured products), issuing loans to non-affiliated enterprises or constructing or purchasing real estate not for self-use. On October 23, 2019, however, the SAFE promulgated the Notice of SAFE on Further Facilitating Cross-border Trade and Investment (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》), which eases cross-border trade and investment, such as canceling restrictions on the use of foreign exchange settlement in domestic asset transaction accounts and allowing foreign non-investment enterprises to carry out domestic equity investment provided that such investment will not violate applicable special administrative measures (negative list) for foreign investment access and the projects to be invested shall be authentic and legitimate. It is still unclear how these rules would be interpreted and implemented by local competent authorities.

Violations of these circulars could result in severe monetary or other penalties. These SAFE circulars may significantly limit our ability to convert, transfer and use the [REDACTED] from this [REDACTED] and any [REDACTED] additional equity securities in the PRC, which may adversely affect our business, financial condition and results of operations.

**Regulations relating to offshore investment activities by PRC residents may subject us to fines or sanctions imposed by the PRC government, including restrictions on our PRC Operating Entities’ abilities to pay dividends or make distributions to us and our ability to increase investment in Wangchen Technology.**

On July 4, 2014, the SAFE promulgated the Circular Concerning Foreign Exchange Administration of Overseas Investment and Financing and Round-trip Investment Conducted by Domestic Residents through Overseas 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》) (the “**Circular 37**”), to replace the Circular on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents’ Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (the “**Circular 75**”), which ceased to be effective upon the promulgation of Circular 37. Circular 37 requires that a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle, or an overseas special purpose vehicle (the “**Overseas SPV**”), that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing; and following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change in the Overseas SPV’s PRC resident shareholder, name of the Overseas SPV, term of operation, or any increase or

---

## RISK FACTORS

---

reduction of the contributions by the PRC resident, share transfer or swap, and merger or division. In addition, on February 13, 2015, the SAFE promulgated the Circular of SAFE on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), also known as Circular 13 which was effective on June 1, 2015 and was amended on December 30, 2019. The aforesaid registration shall be directly reviewed and handled by qualified banks in accordance with the Circular 13, and the SAFE and its branches shall perform indirect regulation over the foreign exchange registration via qualified banks.

As confirmed by our PRC Legal Advisers, our Registered Shareholders, who are our beneficial owners and PRC individuals, have completed the initial SAFE registration pursuant to Circular 37 and Circular 13. There can be no assurance that the subsequent amendment of registration can be successfully completed in a timely manner. We have notified and requested all of our shareholders to comply with, or notify their beneficial owners who are PRC residents to comply with, applicable SAFE regulation, including their filing obligation under Circular 37 and other implementation rules. Nevertheless, we do not have control over our beneficial owners and there can be no assurance that all of our PRC-resident beneficial owners will comply with Circular 37 and other relevant implementation rules, and there is no guarantee that the registration under Circular 37 and any amendment will be completed in a timely manner, or will be completed at all. Failure of our present or future Shareholders who are PRC residents to comply with the relevant requirements could subject these Shareholders to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit the ability of our PRC Operating Entities to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business, financial condition and results of operations.

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

On August 8, 2006, six PRC regulatory authorities, including the MOFCOM, the State Assets Supervision and Administration Commission, the SAT, the SAIC (currently known as the State Administration for Market Regulation), the CSRC and the SAFE, 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》), M&A Rules, which became effective on September 8, 2006 and was amended by the MOFCOM 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 require that MOFCOM be notified in advance of any change-of control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (i) any important industry is concerned, (ii) such transaction involves factors that have or may have impact on the national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. Moreover, the Anti-Monopoly Law of the PRC (《中華人民共和國反壟斷法》), promulgated by the Standing Committee of the National People’s Congress on August 30, 2007 and effective from August 1, 2008, amended on June 24, 2022 and became effective on

---

## RISK FACTORS

---

August 1, 2022, and the Rules of the State Council on Declaration Threshold for Concentration of Undertakings (《國務院關於經營者集中申報標準的規定》) effective as of August 3, 2008, and as amended on September 18, 2018, require that transactions which are deemed concentrations and involve parties with specified turnover thresholds (i.e. during the previous fiscal year, (i) the total global turnover of all operators participating in the transaction exceeds RMB10 billion and at least two of these operators each had a turnover of more than RMB400 million within the PRC, or (ii) the total turnover within the PRC 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 the PRC) 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 (《國務院辦公廳關於建立外國投資者併購境內企業安全審查制度的通知》), or Circular no.6 and became effective on March 3, 2011, which establishes a security review system for merger and acquisition of domestic companies by foreign investors. These security review rules specify that mergers and acquisitions by foreign investors that raise “national defence and security” concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns are subject to strict review by the MOC, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a contractual proxy or control arrangement. In August 2011, MOFCOM promulgated the Rules on Implementation of Security Review System (《商務部實施外國投資者併購境內企業安全審查制度的規定》), or the 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 (《商務部實施外國投資者併購境內企業安全審查制度有關事項的暫行規定》) promulgated by MOFCOM effective from March 5, 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, control through contractual arrangements or offshore transactions. In the future, we may grow our business by acquiring complementary businesses.

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

---

## RISK FACTORS

---

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, filing or other requirements of the CSRC or other PRC government authorities may be required in connection with our [REDACTED] under PRC laws, and, if required, we cannot predict whether we will be able to obtain such approval or complete such filing.**

The PRC government has recently indicated an intent to exert more oversight and control over overseas securities offerings and other capital markets activities and foreign investment in China-based companies like us.

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 Overseas Listing Administration Provisions**”) and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《境內企業境外發行證券和上市備案管理辦法(徵求意見稿)》) (the “**Draft Overseas Listing Filing Measures**”), which were open for public comments until January 23, 2022. The Draft Overseas Listing Administration Provisions comprehensively improved and reformed the exiting regulatory system for overseas offering and listing of domestic companies, and brought all overseas listing activities including both direct and indirect overseas offering and listing under regulation by adopting a filing-based administration system. The Draft Overseas Listing Filing Measures provides that if the issuer meets the following criteria, the overseas securities offering and listing conducted by such issuer will be deemed as indirect overseas offering by PRC domestic companies: (i) any of the revenue, net profit, total assets or net assets of the domestic companies accounted for more than 50% of the respective audited revenue, net profit, total assets or net assets of the issuer within the latest fiscal year; (ii) a majority of the officers responsible for management of the issuer are PRC citizens or have their usual place of residence located in mainland China and the issuer’s main place of operation is within mainland China. It is unclear based on the Draft Overseas Listing Filing Measures that whether either or both of the above criteria need to be satisfied. Where an issuer makes an application for initial public offering to competent overseas regulators, the issuer must submit to the CSRC filing documents within three working days after such application is submitted. The Draft Overseas Listing Filing Measures also requires subsequent report to the CSRC on material events, such as material change in principal business and change of control.

As of the Latest Practicable Date, the Draft Overseas Listing Administration Provisions and the Draft Overseas Listing Filing Measures have not yet come into effect. The interpretation, application and enforcement of the regulations remain unclear. If the filing procedure with the CSRC under the Draft Overseas Listing Administration Provisions is required, we may be required to complete the filing procedures with the CSRC.



---

## RISK FACTORS

---

If it is determined that we are subject to any CSRC approval, filing, other governmental authorization or requirements for this offering or future capital raising activities, we may fail to obtain such approval or meet such requirements in a timely manner or at all, or completion could be rescinded. Any failure to obtain or delay in obtaining such approval or completing such procedures for the [REDACTED] or future capital raising activities, or a rescission of any such approval obtained by us, would subject us to sanctions by the CSRC or other PRC regulatory authorities. These regulatory authorities may impose fines and penalties on our operations in China, or take other actions that could materially and adversely affect our business, financial condition, results of operations and prospects, as well as the [REDACTED] of our Shares.

The CSRC or other PRC regulatory authorities may also take actions requiring us, or making it advisable for us, to halt the [REDACTED] or future capital raising activities before settlement and delivery of the Shares [REDACTED] hereby. Consequently, if you engage in market [REDACTED] or other activities in anticipation of and prior to settlement and delivery, you do so at the risk that settlement and delivery may not occur. In addition, if the CSRC or other regulatory authorities later promulgate new rules or explanations requiring that we obtain their approvals or accomplish the required filing or other regulatory procedures for the [REDACTED] or future capital raising activities, we may be unable to obtain a waiver of such approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties or negative publicity regarding such approval, filing or other requirements could materially and adversely affect our business, prospects, financial condition, reputation, and the [REDACTED] of the Shares.

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

During the Track Record Period, we received various government grants and subsidies from local government authorities for technological innovation. Such government grants amounted to approximately RMB0.8 million, RMB1.6 million, RMB3.0 million and RMB2.7 million during the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. During the Track Record Period, we also received certain preferential tax treatment. Wangchen Technology has obtained its qualification as a “High and New Technology Enterprises” (“HNTE”) in December 2019 and as a result, Wangchen Technology was entitled to the reduced preferential CIT rate of 15% for the years ended December 31, 2019 and 2020 while it was subject to CIT rate of 25% for the year ended December 31, 2021 and the six months ended June 30, 2022. The WFOE has fulfilled the requirement of the “Preferential Corporate Income Tax Treatment for Qianhai Shenzhen — Hong Kong Modern Service Industry Cooperation Zone” and was subject to a reduced preferential CIT tax rate of 15% for the year ended December 31, 2021 and the six months ended June 30, 2022. For more details, please see the section headed “Financial Information — Description of Major Components of Our Results of Operations — Taxation in the PRC” in this document for more information about the enterprise income tax rates applicable to our PRC subsidiaries and PRC Operating Entities.



---

## RISK FACTORS

---

Nevertheless, such government grants and preferential tax rates are non-recurring in nature, and the government authorities may decide to reduce or cancel such government grants or tax preferences at any time. The discontinuation, reduction or delay of these governmental grants or preferential tax treatment could adversely affect our business, financial condition and results of operations. In addition, we might not be able to successfully or timely obtain the government grants or preferential tax treatments that may be available to us in the future, and such failure could adversely affect our business, financial condition and results of operations.

**Any failure to comply with PRC regulations regarding our employee equity incentive plans may subject the participants or us to fines and other legal or administrative sanctions.**

Our Company may adopt an employee equity incentive plans after it becomes an overseas listed company upon the completion of the [REDACTED]. In such a case, we, along with our Directors, executive officers and other employees who may be granted options, may be subject to the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company (《關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》), issued by the SAFE in February 2012. According to the foregoing Notice, employees, directors, supervisors and other management members who are PRC citizens or non-PRC citizens residing in China for a continuous period of no less than one year participating in any stock incentive plan of an overseas publicly listed company, subject to limited exceptions, are required to register with the SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain other procedures. Failure to complete the SAFE registrations may subject them to fines and other legal sanctions and may also limit their ability to make payment under the equity incentive plans or receive dividends or sales proceeds related thereto, or our ability to contribute additional capital into our PRC subsidiaries and our PRC subsidiaries’ ability to distribute dividends to us. This notice issued by the SAFE only covers two categories of equity incentive plans, i.e. employee stock ownership plans and stock option plans. As a result, we also face regulatory uncertainties that could restrict our ability to adopt additional equity incentive plans for our Directors and employees under PRC laws and regulations.

In addition, the SAT has issued certain circulars with respect to employee share option. Under these circulars, our employees working in China will be subject to PRC individual income tax if they exercise share options. Our PRC subsidiaries have the obligation to file documents relating to the employee share options with the relevant tax authorities and to withhold individual income tax for those employees. If our employees fail to pay or we fail to withhold income tax according to the relevant laws and regulations, we may face sanctions imposed by the relevant tax authorities.

---

## RISK FACTORS

---

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

We are a company incorporated in the Cayman Islands with a substantial part of our assets and our Directors and senior management are located within China. Therefore, it may not be possible for investors to effect service of process upon us or our Directors and senior management inside China or to enforce against us or them in China any judgments obtained from non-PRC courts.

On July 14, 2006, the PRC Supreme Court and the Hong Kong government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (《最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the “**2006 Arrangement**”) which was revised on July 3, 2008 and took effect as of August 1, 2008, pursuant to which any designated people’s court of the PRC or any designated Hong Kong court has made an enforceable final judgement requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant people’s court of the PRC or Hong Kong court for recognition and enforcement of the judgement.

On January 18, 2019, the Supreme People’s Court of the PRC and the government of the Hong Kong entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (《關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》) (the “**2019 Arrangement**”). Although the 2019 Arrangement has been signed, it remains unclear when it will come into effect. When the 2019 Arrangement become effective, it will supersede the 2006 Arrangement and any party concerned may apply to the relevant PRC court or Hong Kong court for recognition and enforcement of the effective judgements in civil and commercial cases under the 2019 Arrangement but will be subject to the conditions set forth in the 2019 Arrangement. Therefore, the outcome and effectiveness of any action brought under the 2019 Arrangement is still uncertain. We cannot assure you that an effective judgement that complies with the 2019 Arrangement can be recognised and enforced in a PRC court.

In addition, China currently is not a party to any treaties providing for the reciprocal recognition and enforcement of judgements of courts of the Cayman Islands and many other countries and regions, and therefore recognition and enforcement in China of judgements 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.

---

## RISK FACTORS

---

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

**There has been no prior public market for our Shares, and the liquidity and [REDACTED] of our Shares after the [REDACTED] may be volatile so that an active market may not develop.**

Before the [REDACTED], there was no public market for your Shares. The initial [REDACTED] range of our Shares was the result of negotiations between the Sole Sponsor and us, and the [REDACTED] may differ significantly from the [REDACTED] for our Shares following the [REDACTED]. While we have applied to have our Shares [REDACTED] on the Hong Kong Stock Exchange, there is no guarantee that the [REDACTED] will result in an active, liquid public [REDACTED] market for our Shares. The liquidity, [REDACTED] volume and market [REDACTED] of our Shares may be volatile. Factors such as variations in our revenue, earnings and cash flows or any other developments of us may affect the volume and the [REDACTED] of our Shares.

**The [REDACTED] may not be indicative of [REDACTED] that will prevail in the [REDACTED] market since there will be a gap of several days between [REDACTED] and [REDACTED] of our Shares.**

The [REDACTED] of our Share is expected to be determined on the [REDACTED]. This is because our Shares will not commence [REDACTED] on the Hong Kong Stock Exchange until they are delivered, [REDACTED] may not be able to [REDACTED] or [REDACTED] our Shares during the period between [REDACTED] and [REDACTED] of the Shares. Therefore, [REDACTED] are subject to the risk that the initial [REDACTED] of our Shares may be lower than the [REDACTED] as a result of adverse market conditions or other adverse development, that could occur between the time of [REDACTED] and the time [REDACTED] begins.

**Substantial future sales or the expectation of substantial sales of our Shares in the public market could adversely affect the prevailing [REDACTED] of our Shares.**

The future sale of a significant number of our Shares in the public market after the [REDACTED], or the perception that these sales could occur, could adversely affect the [REDACTED] of our Shares and could materially impair our future ability to raise capital through [REDACTED] of our Shares. Please see “[REDACTED] — [REDACTED] Arrangements and Expenses” in this document for further details. After these restrictions lapse, any sales of a substantial amount of our Shares or other securities relating to our Shares in the public market, the issuance of new Shares or other securities relating to our Share (or the perception that such sales or issuances) may cause the prevailing [REDACTED] of our Shares to decline which could adversely affect our future ability to raise capital.

**The shareholding percentages of the existing Shareholders will be diluted following the conversion of Shares on the [REDACTED].**

On June 16, 2021, our Company entered into the Pre-[REDACTED] CB Subscription Agreement with, among others, Garena Ventures, pursuant to which Garena Ventures agreed to subscribe for the Pre-[REDACTED] Convertible Bonds in the principal amount of HK\$77,112,000 at a conversion price of HK\$[REDACTED] per Share. All of the [REDACTED] of the Pre-[REDACTED] Convertible Bonds were received by our Company on June 21, 2021. On May 31, 2022, our Company and Garena Ventures executed a

---

## RISK FACTORS

---

supplemental deed to extend the maturity date of the Pre-[REDACTED] Convertible Bonds from June 6, 2022 to June 6, 2023. Assuming full conversion of the Pre-[REDACTED] Convertible Bonds immediately before the [REDACTED], Garena Ventures will be issued with [REDACTED] Shares, representing approximately [REDACTED]% of the issued share capital of our Company immediately upon [REDACTED] (without taking into account any Shares which may be issued upon exercise of any option which may be granted under the Share Option Scheme and assuming that there is no adjustment to the conversion price). As a result, the shareholding percentages of the existing Shareholders in our Company would be diluted when the Pre-[REDACTED] Convertible Bonds are converted to Shares prior to the [REDACTED] and could negatively affect the [REDACTED] of the Shares. However, in the event that the conversion of the Pre-[REDACTED] Convertible Bonds does not take place before the maturity date, the Pre-[REDACTED] Convertible Bonds shall bear a simple interest computed at a rate of 5% per annum (on the basis of a 365-day year and the actual number of days elapsed), commencing on the issuance date of the Pre-[REDACTED] Convertible Bonds and until the full payment of the outstanding principal amount and any accrued and unpaid interest payable at maturity or redemption of the Pre-[REDACTED] Convertible Bonds, which may then reduce our cash flow and cash position. For further details of the terms of the Pre-[REDACTED] Convertible Bonds, please see the section headed “History, Reorganization and Corporate Structure — Pre-[REDACTED] Investments — The Pre-[REDACTED] CB Subscription” to this document.

**The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may differ from the laws of Hong Kong and other jurisdictions.**

Our corporate affairs are governed by, among other things, our Memorandum of Association and Articles of Association, the Cayman Companies Act, and the common law of the Cayman Islands. The rights of our Shareholders to take action against our Directors, the rights of minority shareholders to instigate actions and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our Shareholders and the fiduciary responsibilities of our Directors under Cayman Islands law may not be the same as they would be under statutes or judicial precedent in Hong Kong or other jurisdictions. In particular, the Cayman Islands have different securities laws as compared to Hong Kong and may not provide the same protection to investors. Furthermore, shareholders of Cayman Islands companies may not have standing to initiate a shareholder derivative action in a Hong Kong court.

**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.**

We plan to use the [REDACTED] from the [REDACTED] in a number of ways. Please see “Future Plans and Use of [REDACTED] — Use of [REDACTED]” in this document for further details. However, our management will have discretion as to the actual application of our [REDACTED]. Our management may spend the [REDACTED] from the [REDACTED] in ways you may not agree with or that do not yield a favourable return to our Shareholders. You are entrusting your funds to our management, upon whose judgement you must depend, for the specific uses we will make of the [REDACTED] from this [REDACTED].

---

## RISK FACTORS

---

**We may not be able to distribute dividends to our shareholders.**

We cannot assure you when and in what form dividends will be paid on our Shares after the [REDACTED]. The declaration and distribution of dividends is at the discretion of the Board, and our ability to pay dividends or make other distributions to our Shareholders is subject to various factors, including without limitations, our business and financial performance, capital and regulatory requirements and general business conditions. We may not be able to have sufficient or any profits to enable us to make dividend distributions to our shareholders in the future, even if our financial statements indicate that our operations have been profitable. As a result of the above, we are not able to guarantee that we will make any dividend payments on our Shares in the future. Please see “Financial Information — Dividends” in this document for further details.

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

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

**Certain facts, forecasts and statistics contained in this document are derived from various publicly available official or third party sources and may not be accurate, reliable, complete or up-to-date.**

Certain facts, forecasts and statistics contained in this document relating to the PRC and various other countries and regions as well as the online game industry are derived from various official government publications, market data providers, industry expert commissioned by us and other independent third-party sources. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. However, while we have exercised reasonable care in compiling and reproducing these facts, forecasts and statistics, there is no guarantee that such source materials are high quality or reliable.

The information has not been prepared or independently verified by us, the Sole Sponsor, the [REDACTED] or any other party (other than Frost & Sullivan) involved in the [REDACTED] and no representation is given as to its accuracy. We make no representation as to the accuracy of the information contained in such sources, which may not be consistent with other information compiled within or outside the PRC and other jurisdictions and may not be complete or up-to-date. Accordingly, the industry information and statistics contained herein may not be accurate and should not be unduly relied upon for your [REDACTED].



---

## RISK FACTORS

---

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

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

You should rely solely upon the information contained in this document, the [REDACTED] and any formal announcements made by us in Hong Kong in making your [REDACTED] decision regarding our Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our Shares, the [REDACTED] or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such data or publication. Accordingly, prospective [REDACTED] should not rely on any such information, reports or publications in making their decisions as to whether to [REDACTED] in our [REDACTED]. By applying to purchase our Shares in the [REDACTED], you will be deemed to have agreed that you will not rely on any information other than that contained in this document and the [REDACTED].

**Forward-looking statements contained in this document are subject to risks and uncertainties.**

This document contains certain forward-looking statements and information relating to us that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this document, the words “aim”, “anticipate”, “believe”, “can”, “continue”, “could”, “estimate”, “expect”, “intend”, “ought to”, “may”, “might”, “plan”, “potential”, “predict”, “project”, “seek”, “should”, “will”, “would”, and similar expressions, as they relate to our Company or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this document. Subject to the requirements of the Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. [REDACTED] should not place undue reliance on such forward-looking statements and information.