
RISK FACTORS

An investment in our Shares involves significant risks. You should carefully consider all of the information in this document, including the risks and uncertainties described below, before making an investment in our Shares. The following is a description of what we consider to be our material risks. Any of the following risks could materially and adversely affect our business, financial condition and results of operations. The market price of our Shares could significantly decrease due to any of these risks, and you may lose all or part of your investment.

These factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as of the Latest Practicable Date unless otherwise stated, will not be updated after the date hereof, and is subject to the cautionary statements in “Forward-looking Statements” in this document.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

As we are in the new and developing AR/VR content and services industry, or the Metaverse scenario application tier, our future operating results and prospects, as well as our ability to forecast them, are subject to a number of uncertainties, which may materially and adversely affect our profitability and prospects.

We currently derive a significant portion of our revenue from our AR/VR marketing services, AR/VR content and AR/VR SaaS businesses, and we expect this to continue for the foreseeable future. The AR/VR content and services industry is also the scenario application tier of the Metaverse ecosystem, according to iResearch. In 2019, 2020 and 2021, and the three months ended March 31, 2022, revenue generated from our AR/VR marketing services, AR/VR content and AR/VR SaaS businesses was RMB188.9 million, RMB265.7 million, RMB558.3 million and RMB228.8 million, respectively, accounting for approximately 75.3%, 78.5%, 93.8% and 100.0% of our total revenue during the same period. We are in a rapidly developing market. However, as the AR/VR content and services industry, or the Metaverse scenario application tier, is new and developing, our high historical growth rate may not be indicative of our future performance.

Our ability to accurately forecast our future operating results is limited and subject to a number of uncertainties. We operate in a new and developing market and our business strategies are subject to ongoing changes and developments of the industry. In particular, our profitability and prospects depend on the continuing development and growth of the AR/VR content and services industry and may be affected by a number of factors, many of which are beyond our control, including but not limited to the general development trend of the industry, the emergence of other alternative business methods, changes in government regulations or policies affecting the

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industry, and the growth of the Internet industry in China or across the world in general. As the Metaverse is a new and evolving concept and the development of the Metaverse is currently immature, governments may impose regulations or guidelines on the Metaverse in the future. The implementation of new regulations or guidelines could require us to change the way we conduct our business, incur additional expenses or retain legal counsel or additional staff to ensure compliance with such regulations. There can be no assurances as to the development and growth of the AR/VR content and services industry at expected rates or at all, and our business model may not be recognized by the market in a timely manner or at all. If the AR/VR content and services industry fails to continue to develop and grow, or develops or grows more slowly than expected, our profitability and prospects may be materially and adversely affected.

Due to our lack of or limited operating history in the AR/VR content and services businesses, the Metaverse industry and the Feitian Metaverse platform, it may be difficult for investors to evaluate our business and growth.

We shifted from games business to AR/VR content and services businesses in 2017 and completed the transition in 2019. We launched our first AR/VR SaaS platform in 2017 and generated revenue from our AR/VR SaaS business in 2019. With our limited operating history in AR/VR content and services businesses, our ability to accurately forecast our future operating results is limited and subject to a number of uncertainties, including our ability to plan for and model our future growth. We face various challenges and uncertainties, including the fact that we operate in new and developing markets and elements of our business strategy are new and subject to ongoing development.

Metaverse is at its early stage of development and is a constantly developing concept and industry and is expected to continue to evolve. According to iResearch, Metaverse is at present mainly at the 1.0 concept version stage, i.e. the experience attribute stage. Metaverse is expected to evolve and go through Metaverse 2.0 and Metaverse 3.0 stages. For more information, please see the paragraph headed “Industry Overview — Overview of Metaverse Ecosystem” in this document. The development of the Metaverse is highly uncertain and currently immature. The development of the Metaverse is subject to many challenges and constraints, including the development of underlying technologies and infrastructure, imposition of government policies, laws and regulations, and the constantly changing public perceptions. As a participant of the Metaverse, we may be affected by the setbacks in the development of the Metaverse. See also the paragraph headed “— Any negative publicity with respect to us, the AR/VR industry, Metaverse, or our partners may materially and adversely affect our reputation, business and results of operations” in this section.

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In November 2021, we announced that we will be publishing our Feitian Metaverse platform. As our plan for Feitian Metaverse platform is at a preliminary stage with no committed business model for monetization, our development of and future operation with respect to Feitian Metaverse platform is highly uncertain and it may not be possible to fully discern the trends that we are subject to. The development and monetization of our Feitian Metaverse platform depends on the development of the Metaverse, which is itself developing and constantly evolving. We cannot assure you that our attempts to monetize our Feitian Metaverse platform will be successful or that we will generate sustainable revenue or profit from our Feitian Metaverse platform. We face a variety of risks relating to monetizing our Feitian Metaverse platform, most of which are beyond our control, including:

- we may fail to retain and expand our base of end users and business customers;
- we may fail to properly price our products and services on our Feitian Metaverse platform;
- our monetization strategies may be limited by regulations or government policies. We may not obtain all the licenses and permits required by regulations and government policies to carry out our monetization strategies and there is no assurance that we will be able to renew all necessary licenses and permits upon their expiration in a timely manner or at all;
- we may fail to develop or implement new monetization strategies with respect to our Feitian Metaverse platform;
- our products and services offered on Feitian Metaverse platform may fail to compete effectively with the competing products and services introduced by our competitors. The Metaverse is characterized by rapidly evolving technology and standards. Our competitors may develop or acquire alternative and competing technologies and standards that could allow them to introduce products or services that better appeal to the end users and business customers and provide similar competitive products or services at lower costs; and
- we may fail to satisfy the expectations of the quality or reliability of our end users and business customers.

If for any reason we fail to effectively monetize our Feitian Metaverse platform, we may not be able to maintain or increase our revenue or sustain profitability, and our business, financial conditions, results of operations and prospects will be materially and adversely affected.

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We have encountered and will continue to encounter risks and challenges in emerging and rapidly evolving industries, including our ability to, among other things, attract customers, maintain or increase average spending per customer, increase our brand awareness, and enhance monetization. If we fail to address any of the foregoing risks and challenges, our business, financial condition, and results of operations may be materially and adversely affected.

We may not be able to implement our growth strategies or manage our growth effectively.

Our future success depends, to a large extent, on our ability to implement our future plans. We intend to, among other things, extend and enhance our current position in the AR/VR content and services industry in China, including our AR/VR marketing services, AR/VR content and AR/VR SaaS, and build a leading Metaverse platform in China. See the paragraph headed “Business — Our Development Strategies” and the section headed “Future Plans and [REDACTED]” in this document for detailed information of our future plans.

However, our ability to grow and implement our future plans will be subject to a wide range of operational and financial requirements, including, among others, appropriate allocation of capital investments in implementing various plans, formulation of a successful monetization plan and adequate human resources. We may also be unable to realize our future plans in accordance with the expected timetable, or at all, due to other risks and uncertainties which include, among others, intensifying competition, our ability to retain key employees and maintain favorable labor relations, our financial stability, and our existing business relationships with major customers and suppliers. The execution of our future plans may also be hindered by other factors beyond our control, such as market acceptance and growth of the AR/VR content and services industry, or market acceptance and development of the Metaverse, general market conditions and the domestic and international economic and political environment.

If we fail to implement our growth strategies or manage our growth effectively, this may hinder our ability to capture new business opportunities and maintain our competitive edge, and hence, our business, financial conditions, results of operations and prospects may be materially and adversely affected.

Our historical growth rates may not be indicative of our future growth.

We experienced rapid growth in our revenue during the Track Record Period. Our revenue increased by RMB87.7 million, or 34.9%, from RMB250.9 million in 2019 to RMB338.6 million in 2020, and further increased by RMB256.7 million, or 75.8%, to RMB595.3 million in 2021. Our revenue increased by RMB90.2 million, or 65.0%, from RMB138.7 million in the three months ended March 31, 2021 to RMB228.9 million in the three months ended March 31, 2022.

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While our business has grown in the past, we cannot assure you that we will be able to sustain our historical growth rate for various reasons, including uncertainty of our continuous launch of new products and services, intensified competition within the AR/VR content and services industry in China and unforeseen changes in the PRC laws and policies which may have an impact on our businesses. The development of the Metaverse is also highly uncertain and currently immature. Our plan for Feitian Metaverse platform is at a very preliminary stage with no committed business model for monetization. Our revenue, expenses and operating results may vary from period to period due to factors beyond our control. We cannot assure you that our future revenue will increase or that we will continue to be profitable. Accordingly, investors should not rely on our historical results as an indication of our future financial or operating performance.

In addition, our anticipated expansion and investment in new products and services may place a significant strain on our managerial, operational, financial and human resources. Our current and planned personnel, systems, procedures and controls may not be adequate to support our future operations. We cannot assure you that we will be able to effectively manage our growth or implement all such systems, procedures and control measures successfully. If we are not able to manage our growth or execute our strategies effectively, our business and prospects may be materially and adversely affected.

Any negative publicity with respect to us, the AR/VR industry, Metaverse, or our partners, may materially and adversely affect our reputation, business and results of operations.

Complaints, litigation, regulatory actions or other negative publicity that arises about the AR/VR industry and Metaverse in general or our Group in particular, including on the quality, effectiveness and reliability of our AR/VR marketing services solutions, our proprietary platform, privacy, security practices, or marketing content, even if groundless, could adversely affect our reputation and customers’ confidence in us. For example, there has been some negative press coverage on Metaverse on online news medias including Xinhuanet in China. Metaverse was considered to be an overrated and immature concept and may be subject to stricter regulatory scrutiny according to some online news media in China. Damage to our reputation and customers’ confidence can also arise for many other reasons, including employee misconduct, misconduct of media platforms or other counterparties, failure by these persons or entities to meet minimum quality standards or otherwise fulfil their contractual obligations or to comply with applicable laws and regulations. Additionally, negative publicity with respect to our data or media platforms could also affect our business and operations to the extent that our business and operations rely on these partners. Moreover, we are vulnerable to adverse market perception as we operate in an industry where integrity, customer trust, and confidence are critical. Any litigation and disputes, misconduct of our personnel, changes in senior personnel, customer complaints, and the outcome of regulatory investigations or penalties imposed upon us may harm our reputation. Any damage to our

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reputation may cause our existing and potential customers to be reluctant to procure services from us in the future and therefore may have a material adverse impact on our business, results of operations, financial conditions and prospects.

Our business, growth and prospects are significantly affected by the growth in the SaaS industry and the AR/VR marketing industry in China.

SaaS products remain less common and less mature in terms of development in China compared to the United States. As a result, the transition to SaaS products in China may be slower among customers with heightened data security concerns or demands for highly customizable application software. Whether our customers accept our SaaS products depends, to a large extent, on their level of awareness of our SaaS product offerings and the widespread, global use of SaaS products. We cannot assure you that the trend of adopting and utilizing such products by customers will continue to grow in the future.

In addition, marketing through new means and channels such as AR/VR marketing remains less established compared to other conventional means such as search engines. The future growth of our business may be constrained by a combination of the (i) level of acceptance and expansion of emerging AR/VR marketing channels, and (ii) continued use and growth of existing AR/VR marketing channels. Even if AR/VR marketing becomes widely adopted, advertising customers may not be familiar with, or be willing to make significant investments in, services such as ours which can assist them in managing their marketing across channels and devices. As a result, we cannot predict with certainty of the demand for our solutions and services or the future growth rate and size of the market for our AR/VR SaaS products and AR/VR marketing services.

If we fail to improve and enhance the functionality, performance, reliability, design, security, and scalability of our products and services timely to suit our customers’ evolving needs, our business, financial condition, results of operations and prospects may be materially and adversely affected.

The markets in which we operate and compete are characterized by constant change and innovation, and we expect these markets to continue evolving rapidly. To date, our success has been based on our ability to identify and anticipate the needs of our customers and design solutions and services our customers required to develop their businesses. For further information on the solutions and services we offer, see the paragraph headed “Business — Our Services and Products” in this document. Our ability to attract new customers, retain existing customers, increase sales to both new and existing customers and increase cross-sales among our business segments will depend, to a large extent, on our ability to continue improving and enhancing the functionality, performance, reliability, design, security and scalability of our solutions and services.

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We may also experience difficulties in keeping pace with rapidly developing technologies, especially those applied in the AR/VR content and services industry such as in AR/VR hardware, Internet-related hardware and software, communication, cloud computing, machine learning, application software development platform and database technologies. We may not be successful in either developing these technologies or in applying them in our services or products in a timely manner. Continuous improvement and enhancement of our solutions and services requires significant investment and we may not have sufficient resources to do so. To the extent we are not able to improve or enhance the functionality, performance, reliability, design, security, and scalability of our solutions and services in a manner that responds to our customers’ evolving needs, or our solutions and services lack the market attractiveness or the ability to solve the pain points in the industry, our existing customers may not repurchase our solutions and services. In particular, the introduction of significant technology changes and upgrades and expansion of our AR/VR marketing services, AR/VR content and AR/VR SaaS may not be successful, or they may not result in long-term success or significant increase in revenue for us. Failure in this regard may significantly impair our revenue growth as well as negatively impact our operating results if the additional costs are not offset by additional revenues. As a result, our business, financial condition, results of operations, and prospects will be adversely affected.

Loss of any existing major media platforms or their agents and changes in our contract terms with any of such media platforms or their agents may materially and adversely affect our business and results of operations.

Apart from our customers, media platforms and their agents are also key participants in our business. By efficiently matching the needs of customers with the traffic from media platforms, we enable media platforms to effectively monetize their traffic, and, in the meantime, assist our customers in gaining traffic of substantial scale. Our continued access to attractive content distribution opportunities and premium media resources remains crucial to our AR/VR marketing services business.

Our success depends on our ability to retain existing media platforms, deepen or expand our relationships with our media platforms and their agents and establish cooperation relationship with new media platforms in the future. For the years ended December 31, 2019, 2020 and 2021 and the three months ended March 31, 2022, agents of media platforms accounted for four, three, four and five of our top five largest suppliers, respectively. As of the Latest Practicable Date, we had not owned or controlled any content distribution channel in China. We typically enter into agreements with media platforms or their agents for a term of one year, and media platforms and their agents are generally not bound by long-term contracts with us. If our media platforms or their agents are no longer satisfied with the monetization efficiency generated by using our services, or if their traffic-related policies or relevant industry policies are adopted or amended in a way unfavorable to us, they may reduce or discontinue their cooperation with us and we would lose a portion or all

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of the advertising inventories through which we can deliver advertisements. In the event that we cease to cooperate with any existing major media platforms or their agents, we may not be able to complete the advertising delivery for our customers in a timely manner or at all, and may incur significant costs in finding new media platforms or new advertising traffic. We cannot assure you that we will be able to maintain existing business relationship or deepen cooperation with them in the future. Loss of access to any one of our existing major media platforms, or the ability to source any alternative media platforms in a timely manner, or at all, may negatively impact our capacity to help customers reach their target consumers and may, in turn, affect our business, brand and results of operations.

Limitations on our ability to collect and use data, or any challenges to our right to collect and use such data, could significantly diminish the value of our technologies and services and cause us to lose our customers and media platforms, and harm our business and results of operations.

Interruptions, failures or defects in our data collection systems, as well as privacy concerns regarding the collection of device-specific data, could also limit our ability to analyze such device-specific data. In addition, there is no assurance that the PRC Government will not adopt legislation that prohibits or limits collection of device-specific data on the Internet and the use of such data, or that third parties will not bring lawsuits against us relating to Internet privacy and data collection. Due to the recent development of laws and regulations on data protection and privacy, other companies will be subject to more stringent requirements on data sharing with third parties, which may limit our ability to collect data from them. The competent government agencies have enhanced their enforcement on the laws and regulations in relation to privacy and data protection in the past and may continue to take enhanced enforcement actions in the future. The Notice on the Illegal Collection and Use of Personal Information by 129 Apps Such As “Keep” (《關於Keep等129款App違法違規收集使用個人信息情況的通報》) issued by the CAC in June 2021 is a recent example. The application categories targeted by the competent government agencies include, among others, fitness, video streaming, online shopping, education, women’s health, dating and application store. The notice aims to enhance the CAC’s scrutiny of the data collection use policy of leading technology companies so as to as prohibit them from infringing personal information and privacy. These laws and regulations are constantly evolving and can be subject to significant changes. As a result, the application, interpretation and enforcement of these laws and regulations are often uncertain, particularly in the rapidly evolving industries in which we operate, and may be interpreted and applied inconsistently. For further information, see the paragraph headed “— We are subject to complex and evolving laws, regulations and governmental policies regarding privacy and data protection. Actual or alleged failure to comply with privacy and data protection laws, regulations and governmental policies could damage our reputation, deter current and potential customers from using our products and services and could subject us to significant legal, financial and operational consequences” in this section. Third-party companies

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may adjust their policies on data access, data collection and content restrictions from time to time, and such changes are beyond our control. For example, in April 2021, Apple Inc. adopted a new consumer privacy protection policy, requiring app platforms to get explicit permissions from users before tracking their activity across other apps or websites that the app platforms do not own and allowing iPhone users to opt out to be tracked on different apps when using their Apple devices. If any of the above happens, we may be unable to provide effective services, and lose our customers and media platforms, and our business, financial condition and results of operations would be adversely affected. Lawsuits or administrative inquiries could also be costly and divert management resources, and the outcome of such lawsuits or inquiries may be uncertain and may harm our business.

We were exposed to concentration risk and counter-party risk of reliance on our major customers and suppliers during the Track Record Period.

During the Track Record Period, we generated a significant portion of our revenue from sales to our major customers and we procured a significant portion of our total purchase amount from our major suppliers. For the years ended December 31, 2019, 2020 and 2021 and the three months ended March 31, 2022, our five largest customers accounted for approximately 46.1%, 38.5%, 39.2% and 30.7% of our revenue, respectively. During the same periods, our largest customer accounted for approximately 12.0%, 14.2%, 10.2% and 7.5% of our revenue, respectively. For the years ended December 31, 2019, 2020 and 2021 and the three months ended March 31, 2022, our five largest suppliers accounted for approximately 49.9%, 41.1%, 45.1% and 54.2% of our total cost of revenue, respectively. During the same periods, our largest supplier accounted for approximately 16.1%, 9.7%, 13.5% and 14.8% of our total cost of revenue, respectively. As such, we may be subject to concentration and counter-party risk from these major customers and suppliers. See the paragraphs headed “Business — Our Customers” and “Business — Our Suppliers” in this document for more details. In addition, our five largest customers and five largest suppliers varied during the Track Record Period. We cannot guarantee that our major customers and suppliers will continue to work with us or will not reduce their business with us. In particular, we cannot guarantee that our customers will enter into new service contracts with Beijing Flowing Cloud for the Non-restricted Businesses (as defined in the section headed “Contractual Arrangements” in this document) upon termination or expiration of existing service contracts for the Non-restricted Businesses. Moreover, we cannot guarantee that our major customers or suppliers will not have a change of business scope or business model, will continue to maintain their market position and reputation, will not cease to operate or will not experience operational or financial difficulties. Any material adverse change to the operation, financial performance or financial condition of our major customers and suppliers may have a significant adverse impact on us. If we are unable to find new customers and suppliers on comparable

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commercial terms or, in the case of customers, with similar revenue contribution, within a reasonable period of time, or at all, our business, financial condition, results of operations and profitability may be adversely affected.

If we fail to effectively manage and control our traffic acquisition costs, our gross profit and financial results will be adversely affected.

A significant portion of our revenue is generated using the CPA, CPC or CPM pricing model. We pay our media platforms or their agents traffic acquisition costs for placing advertisements using the CPA, CPC or CPM pricing model. For the years ended December 31, 2019, 2020 and 2021 and the three months ended March 31, 2022, our traffic acquisition costs amounted to RMB115.3 million, RMB138.4 million, RMB311.5 million and RMB126.7 million, respectively, accounting for 65.6%, 59.2%, 74.2% and 81.5% of our total cost of revenue during the same period. We rely on historical data to conduct analysis and set advertisement placement strategies. If our advertisement placement strategies do not lead to expected advertising targets, we may incur higher costs than predicted, which will affect our gross profit, and if we cannot effectively manage such costs, our profitability and financial results will be adversely affected.

We recorded negative operating cash flow for the three months ended March 31, 2021 and 2022.

Our net cash used in operating activities was RMB11.1 million for the three months ended March 31, 2021, primarily due to (i) a decrease in contract liabilities mainly because we completed the performance of certain AR/VR marketing services and delivered AR/VR content and IPs in relation to the contract liabilities in the three months ended March 31, 2021, and (ii) an increase in prepayments mainly for purchasing advertising traffic in connection with our AR/VR marketing. Our net cash used in operating activities was RMB12.6 million for the three months ended March 31, 2022, primarily due to (i) an increase in trade and other receivables and deposits due to the growth of our AR/VR marketing services, AR/VR content and AR/VR SaaS businesses, and (ii) an increase in prepayments mainly for purchasing advertising traffic in connection with our AR/VR marketing services and for purchasing outsourcing services in connection with our AR/VR content business expansion. For further information, see the paragraphs headed “Financial Information — Discussion of Certain Key Consolidated Balance Sheets Items” and “Financial Information — Liquidity and Capital Resources — Cash Flow” in this document.

We cannot assure you that we will be able to generate positive cash flows from operating activities in the future. If we record net operating cash outflows in the future, our working capital may be constrained which may adversely affect our financial condition. Our future liquidity, payment of trade payables, and bank and other borrowings primarily depend on our ability to maintain adequate cash inflows from our operating activities and adequate external financing. If

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we are unable to maintain our sources of funding in a timely manner and on reasonable terms, or at all, we may face liquidity issues and our business, financial condition and results of operations may be materially and adversely affected.

We are exposed to credit risk in relation to our customers, which could adversely impact our financial condition, results of operations and operating cash flow.

We are exposed to credit risk in relation to our trade receivables. The balance of our trade receivables was RMB96.7 million, RMB139.8 million, RMB161.9 million and RMB197.9 million as of December 31, 2019, 2020 and 2021 and March 31, 2022, respectively. As of December 31, 2019, 2020 and 2021 and March 31, 2022, our allowance for credit losses of trade receivables was RMB5.5 million, RMB7.9 million, RMB7.0 million and RMB12.6 million, respectively. For the years ended December 31, 2019 and 2020, our impairment losses recognized on trade receivables was RMB2.6 million and RMB2.4 million, respectively, and our impairment losses reversed on trade receivables for the year ended December 31, 2021 was RMB0.9 million. For the three months ended March 31, 2022, our impairment losses recognized on trade receivables was RMB5.6 million. We generally grant a credit of several working days to six months typically after we issue a VAT invoice to our customers, which is interest free with no collateral. We cannot guarantee that our customers will settle our trade receivables in full or at all, whether within the credit period or not, and our trade receivable turnover days may increase in the future. If any of our customers with significant outstanding trade receivable balances were to become insolvent or otherwise unable to make payments in a timely manner, or at all, we would have to make further provisions against such trade receivables and deposits, or write off the relevant amounts, either of which could adversely affect our profitability and liquidity position. See the paragraph headed “Financial Information — Financial Risks Disclosure — Credit Risk” and Note 33 to the Accountants’ Report set out in Appendix I to this document. If our customers fail to pay us in full in a timely manner or at all, our financial condition, results of operations and operating cash flow may be materially and adversely affected.

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

We have benefited from preferential tax treatments from the PRC Government. For example, Ophyer Technology was qualified as a high and new technology enterprise and enjoyed lower income tax rate of 15% during the Track Record Period. In addition, certain of our PRC subsidiaries have been approved as small low-profit enterprises and were subject to a preferential income tax rate of 5% or 10% during the Track Record Period. The government agencies may decide to reduce, eliminate, decline to renew or cancel our tax preferences in the future. Therefore, we cannot assure you of the continued availability of such tax preference which we currently enjoy. We also receive government grants primarily in the form of interest subsidies. Any discontinuation, reduction or delay of the preferential tax treatments or government grants could

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adversely affect our financial condition and results of operations. See the paragraph headed “Financial Information — Description of Major Components of Our Results of Operations — Other Gains and Losses” in this document. As these grants are provided typically on a one-off basis, there is no guarantee that we will continue receiving or benefitting from them in the future.

We are subject to risk of recoverability of deferred tax assets.

Deferred tax assets are generally recognized for all deductible temporary differences and unused tax losses to the extent that future taxable profit will be available to utilize against such asset recognized prior to their expiry. As of December 31, 2019, 2020 and 2021, and March 31, 2022, our deferred tax assets amounted to RMB0.8 million, RMB1.1 million, RMB1.3 million and RMB3.2 million, respectively. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the timing and amount of forecasted future taxable profits at the relevant times together with future tax planning strategies. Any changes in management judgment as well as the future operating results of the relevant entities would affect the carrying amounts of deferred tax assets to be recognized and the recoverability of deferred tax assets recognized in our consolidated financial statements, and hence could materially and adversely affect our financial condition and results of operation in future years.

Our large prepayments to major suppliers for advertising traffic acquisition may involve significant uncertainty.

During the Track Record Period, we made significant prepayments to major suppliers for advertising traffic acquisition. The balance of our prepayments for advertising traffic acquisition as of December 31, 2019, 2020 and 2021 and March 31, 2022 was RMB44.7 million, RMB85.9 million, RMB138.4 million and RMB171.5 million, respectively. If the amount of prepayments paid to major suppliers for traffic acquisition increase significantly in the future, we may experience issues related to business operation and capital insufficiency caused by mismatched prepayment for purchases of advertising traffic and the collection of trade receivables. If our suppliers change the price or material terms of our advertising traffic purchase arrangement, we may be subject to price pressure and may incur more traffic acquisition costs than we expected. If our suppliers fail to provide relevant traffic resources to us, our business may be materially and adversely affected. Moreover, any material adverse change to the operation, financial performance or financial condition of these suppliers may have a significant adverse impact on us.

Our operating results are subject to seasonal fluctuations.

We have experienced, and expect to continue to experience, seasonal fluctuations in our revenue and results of operations. Our revenue from the first quarter of each calendar year generally contributes a smaller portion of our total revenue in the year, primarily due to the closure of businesses at the beginning of the calendar year in which the Chinese New Year holidays fall, resulting in less demand from our customers. As a result, our revenue may vary from

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quarter to quarter, and you may not be able to predict our annual results of operations based on a quarter-to-quarter comparison of our results of operations. As a result of the continued growth of our service and product offerings, we believe that our business may become more seasonal in the future, and that historical patterns in our business may not be a reliable indicator of our future sales activity or performance, and any quarterly fluctuations in our revenues and results of operations could result in volatility and cause the price of our Shares to fall. As our revenues grow, these seasonal fluctuations may become more pronounced as a result.

Failure to fulfill our obligations in respect of contract liabilities could materially and adversely affect our results of operation, liquidity and financial position.

Our contract liabilities represent our obligations to provide the contracted services and products to customers. Our contract liabilities mainly arise from the advance payments in relation to our AR/VR marketing services, AR/VR content, AR/VR SaaS and IP products ordered by the customers while the underlying services or products are yet to be provided. As of December 31, 2019, 2020 and 2021 and March 31, 2022, we had contract liabilities of RMB19.0 million, RMB44.4 million, RMB21.1 million and RMB24.3 million, respectively. For further details, see the paragraph headed “Financial Information — Discussion of Certain Key Consolidated Balance Sheets Items — Contract Liabilities” in this document.

There is no assurance that we will be able to fulfill our obligations in respect of contract liabilities as the completion of our services or products is subject to various factors, including our operation capabilities and normal operations of our business. If we are not able to fulfill our obligations with respect to our contract liabilities, the amount of contract liabilities will not be recognized as revenue, and we may have to return the advance payment made by our customers. As a result, our results of operations, liquidity and financial position may be materially and adversely affected.

We face intensive competition in the markets in which we operate and may not be able to compete successfully against our existing and future competitors.

We face competition in various aspects of our business and we expect such competition to continue growing in the future. According to iResearch, there are more than 5,000 players in the AR/VR content and services market in China and we only had a market share of 2.6% in terms of revenue in 2021. Moreover, certain of our competitors have longer operating histories and experience, larger customer bases, greater brand recognition, more extensive commercial relationships within China and greater financial, technical, marketing, and other resources than we do. As a result, such competitors may be able to develop products and services better received by customers or may be able to respond more quickly and effectively to new or changing opportunities, technologies, regulations or customers’ needs. Traditional online marketing companies and offline advertising companies may compete with our AR/VR marketing services business for our customers’ advertising budgets. We also compete for customers’ overall marketing spending with direct marketing, print advertising companies and traditional media such as

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television, radio and cable companies. In addition, some of our competitors may be able to leverage a larger existing customer base and sales network to adopt more aggressive pricing policies and offer more attractive sales terms. This could cause us to lose potential sales or compel us to sell our solutions and services at lower prices to remain competitive, which may have a material adverse impact on our results of operation and financial condition.

We may be subject to further competition if any of our competitors enter into business partnerships or alliances or raise significant additional capital, or if established companies from other market segments or geographical markets expand into our market segments or geographical markets. Any existing or potential competitors may also choose to operate based on a different pricing model or undercut prices in order to increase their market share. If we are unable to compete successfully against our current or potential competitors, our business, results of operations, and financial condition may be negatively impacted.

We may be unable to obtain any additional capital required in a timely manner or on acceptable terms, or at all. Further, our future capital needs may require us to sell additional equity or debt securities that may dilute our Shareholders’ shareholdings or introduce covenants that may restrict our operations or our ability to pay dividends.

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

- our market position and competitiveness in the industries in which we operate;
- our future profitability, overall financial condition, results of operations and cash flows;
- general market conditions for capital-raising activities by our competitors or other AR/VR content and services and SaaS product providers in China;
- uncertainty and immaturity of Metaverse in general; and
- economic, political and other conditions in China and internationally.

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

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We store personal information belonging to our customers in relation to our AR/VR marketing services and AR/VR SaaS products on our systems. If our security is compromised, or such information is otherwise accessed without authorization, our reputation may be harmed, and we may be exposed to potential liability and significant loss of business.

Under certain circumstances, we store mobile phone numbers and other confidential information relating to our customers, and are subject to PRC laws and regulations regarding privacy and the protection of data. For further information, see the paragraph headed “— We are subject to complex and evolving laws, regulations and governmental policies regarding privacy and data protection. Actual or alleged failure to comply with privacy and data protection laws, regulations and governmental policies could damage our reputation, deter current and potential customers from using our products and services and could subject us to significant legal, financial and operational consequences” in this section and the paragraph headed “Regulatory Overview — Laws and Regulations Relating to Information Security and Privacy Protection” in this document.

We do not frequently monitor or review content uploaded and stored by our customers on our systems. Therefore, we do not control the substance of the content on our systems, which may include personal information. We cannot assure you that third parties will not succeed in their attempts to obtain unauthorized access to any personally identifiable information relating to our customers. Such information may also be otherwise exposed through human error or other malfeasance. Any unauthorized access or compromise of such personally identifiable information could have an adverse effect on our business, financial condition and results of operations.

Systems disruptions, distributed denial of service attacks, or other hacking and phishing attacks on our systems and security breaches may delay or interrupt services to our customers, harm our reputation and subject us to significant liability, which in turn may adversely affect our business, results of operations and financial results.

Notwithstanding that we did not experience any material interruptions in our system during the Track Record Period, our system may be subject to system disruptions and distributed denial of service (DDoS) attacks, a technique used by hackers to take an Internet service offline by overloading its servers and we cannot assure you that any applicable recovery system, security protocol, network protection mechanisms or other defense procedures are, or will be, adequate to prevent such network or service interruptions, system failures or data losses. Additionally, our infrastructure and systems may also be breached if any vulnerabilities therein are exploited by unauthorized third parties.

We may not be able to implement sufficient preventative measures or stop the DDoS attacks, hacking and phishing attacks while they are occurring. A DDoS attack, other hacking and phishing attack or security breach could delay or interrupt our services to our customers. This, in turn, may deter end users from visiting our customers’ AR/VR storefronts, hence affecting their overall user experience. Any actual or perceived attacks or security breaches may also damage our reputation and brand, expose us to risks of potential litigation and liabilities, and require us to expend significant capital and other resources to alleviate problems caused by such attacks or security

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breaches. Should a high-profile or highly publicized security breach occur with respect to other AR/VR content or service provider or SaaS products provider, customers may lose confidence in the security of our products and service model as a whole, which would have a material adverse impact on our ability to retain existing customers and attract new ones.

If the advertising performance data or other data provided to us is inaccurate or fraudulent, it may have an adverse impact on our business, results of operations and reputation.

We depend on the accuracy and genuineness of advertising performance data and other data provided by our advertising customers in evaluating the effectiveness of our advertising customers' marketing campaigns and determining the AR/VR marketing services fees that we receive from advertising customers and the traffic acquisition costs that we pay to media platforms or their agents. There can be no assurance that our management procedures to secure data accuracy and genuineness are always effective or adequate. If the advertising performance data or other data provided by our advertising customers is inaccurate or fraudulent, we will not be able to improve precision and achieve better performance for our advertising customers' advertisements and greater monetization efficiency for media platforms. If our system fails to detect fraudulent advertising performance data or other data, we may have to pay unnecessary traffic acquisition costs to media platforms or their agents based on these fraudulent data, and advertising customers may refuse to pay us fees due to the ineffectiveness of the marketing campaigns, which could result in disputes with our customers or media platforms or their agents, harm to our reputation and loss of our advertising customers and media platforms, and adversely affect our business, results of operations and financial conditions.

In addition, there is no assurance that there will not be illegitimate or fraudulent clicks on advertisements, which would lower the return on our advertising customers' investment, and hence their willingness to use our services would be adversely affected. Any of these events will impair the performance of our AR/VR marketing services business, reduce customer satisfaction, and lead to loss of customers, which could harm our reputation and adversely affect our business, financial condition, results of operations and prospects.

Misappropriation or misuse of marketing data could result in claims from our customers, increased cost of operations, or adverse impact on our reputation, or otherwise harm our business.

In providing our AR/VR marketing services, we have built data storage and computing containers to store and compute information and data in relation to our AR/VR marketing services. We cannot assure you that we will be able to completely prevent unauthorized individuals from gaining access to these database servers. Unauthorized access to our servers, or abuse by our employees, may take place, which could result in the theft or loss of our marketing data. If marketing data is misappropriated, misused or lost, we could lose customers or media platforms, or become subject to liability or litigation, and our reputation could be harmed, any of which could materially and adversely affect our business and results of operations.

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If our products and solutions contain serious errors or defects, we may lose our sources of revenue and our customers may lose confidence in our products and services. In addition, we may incur significant costs defending or settling claims with our customers as a result of such serious errors or defects.

Products and solutions within the AR/VR content and services industry, such as those we develop, often contain errors, defects, security vulnerabilities or software issues that are difficult to detect and correct, particularly when first introduced or when new versions or enhancements are released. If we are unable to successfully detect or correct accordingly in a timely manner or at all, it could result in revenue loss, significant expenditures of capital, a delay or loss in market acceptance and damage to our reputation and brand, any of which could have an adverse effect on our business, reputation, financial condition, and results of operations.

Given that many of our customers use our products and services in processes that are critical to their businesses, any error, defect, security vulnerability, service interruption or software issue in our platform could result in losses to our customers. Our customers may seek significant compensation from us for any losses they suffer or cease conducting business with us as well. Further, our customers may share information about their negative experiences on social media, which could damage our reputation and result in a loss of future sales. We cannot assure you that provisions limiting our exposure to claims, which we typically include in agreements with our customers, would be enforceable, adequate or would otherwise protect us from liabilities or damages with respect to any particular claim. Even if unsuccessful, a claim brought against us by any of our customers would likely be time-consuming, costly to defend and may have a material adverse impact on our reputation and brand, making it harder for us to sell our products and services.

Any interruptions or delays in services from third parties, including data center hosting facilities and cloud computing server providers and other hardware and software vendors, or from our inability to adequately plan for and manage service interruptions or infrastructure capacity requirements, may impair the delivery of our services, and materially and adversely affect our business and results of operations.

We rely on third-party data center hosting facilities and cloud computing platform providers located in China. We also rely on computer hardware purchased from, software licensed from, and cloud computing platforms provided by, third parties in order to offer our services. Any damage to, or a failure of, our systems generally, including systems of our third-party platform providers, could result in interruptions in our services. In the past, we have experienced interruptions in our services, and such interruptions may occur in the future. Interruptions in our services may cause us to issue credits or pay penalties to our customers, cause our customers to make warranty or other claims against us. Any of this would create a material and adverse effect on our ability to attract new customers, all of which would reduce our revenue. Our business and reputation may also be harmed if our customers, or potential customers, believe that our products and services are unreliable.

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We do not control the operation of any of these facilities provided by third-party providers, which may be vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures, and similar events. These facilities may also be subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct, as well as local administrative actions, changes to legal or regulatory requirements and litigious proceedings to stop, limit or delay operations. There is no assurance that precautions taken by our third-party providers at these facilities, such as disaster recovery and business continuity arrangements, would effectively prevent the occurrence of an act of terrorism or natural disaster. A decision to close the facilities without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in our services.

Additionally, these hardware, software, data and cloud computing platforms may not continue to be available to us at reasonable prices, on commercially reasonable terms, or at all. If we lose our right to use any of these hardware, software or cloud computing platforms, this could significantly increase our expenses or otherwise result in delays in the provision of our services until equivalent technology is either developed by us, or, if available, is identified, obtained through purchase or license and integrated into our services. If the performance of such third parties proves unsatisfactory, or if any of them violates its contractual obligations to us, we may need to replace such third-party and/or take other remedial action, which could result in additional costs and materially and adversely affect the products and services we provide to our customers. Further, the financial condition of our third-party providers may deteriorate over the course of our contract term with them, which may also impact the ability of such third-party to provide the agreed services, and have a material adverse effect on the services we provide to our customers, and our results of operations.

If we lack requisite approvals, licenses or permits applicable to our business, it may have a material adverse effect on our business and results of operations.

The laws and regulations on our industry and Internet-related businesses, and the licensing and permit requirements pertaining to our Company and companies in the Internet-related business, are relatively new and evolving. For example, the Supervision and Administration of Online Trading (《網絡交易監督管理辦法》) (the “**Online Trading Measures**”) published by the State Administration for Market Regulation (the “**SAMR**”) on March 15, 2021 and came into effect on May 1, 2021, aims to regulate business activities involving the sale of commodities or provision of services through Internet and other information networks by the online transaction operators. According to the Online Trading Measures, online transaction operators may not engage in business operations without a licence or permit in violation of any law, regulation or decision of the State Council. As advised by our PRC Legal Advisors, we are not an online transaction operator, but shall be classified as an “other service provider” that provides public and promotion services for online transaction operators as defined under the Online Trading Measures. According to the Online Trading Measures, we are obliged to promptly assist the SAMR in its legal investigation and enforcement against any illegal online transactions, and are required to provide relevant data and information and to assist the regulatory authorities by taking any necessary actions to stop any illegal act committed by an online transaction operator. We may incur

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additional costs if we are required to provide assistance to the regulatory authorities to stop any illegal act committed by an online transaction operation, which may adversely affect our business and results of operations. See the section headed “Regulatory Overview” and the paragraph headed “Business — Licenses and Permits” in this document for details. The interpretation and enforcement of these laws and regulations also involve significant uncertainties. As a result, in certain circumstances, it may be difficult to determine what may be deemed to be a violation of applicable laws and regulations. There can be no assurances that we have obtained or are able to renew all the permits or licenses required for conducting our business in all jurisdictions where we operate, or that we will be able to maintain our existing licenses or obtain new ones.

If any government considers that we were operating without the proper approvals, licenses or permits, or promulgates new laws and regulations that require additional approvals or licenses or imposes additional restrictions on the operation of any part of our business, it has the power, among other things, to levy fines, confiscate our income, revoke our business licenses, and require us to discontinue our relevant business or impose restrictions on the affected portion of our business. Any of these actions by such government may have a material adverse effect on our business and results of operations.

We may be unable to obtain, maintain and protect our intellectual property rights and proprietary information or prevent third parties from any unauthorized use of our technologies.

Our trade secrets, trademarks, copyrights, patents, and other intellectual property rights are critical to our success. As of the Latest Practicable Date, we had 29 trademarks in various categories, five invention patents, one design patent, 12 domain names, 278 software copyrights and 21 artwork copyrights in China and 10 trademarks in Hong Kong. We rely on, and expect to continue to rely on, a combination of confidentiality and non-compete, invention assignment and license agreements with our employees, and third parties with whom we have relationships, as well as our trademark, domain names, copyrights, trade secrets, patents rights, and other intellectual property rights to protect our brand. However, events beyond our control may pose a threat to our intellectual property rights, as well as to our products and services. Effective protection of trademarks, copyrights, domain names, patent rights, and other intellectual property rights is expensive and difficult to maintain, both in terms of application and costs, as well as the costs of defending and enforcing those rights. We cannot assure you that our efforts to protect our intellectual property rights are either sufficient or effective. As a result, our intellectual property rights may be infringed, misappropriated, or challenged, which could result in them being narrowed in scope or declared invalid or unenforceable.

Similarly, our reliance on unpatented proprietary information and technology, such as trade secrets and confidential information, depends in part on our agreements with employees and third parties which contain restrictions on the use and disclosure of such intellectual property. These agreements may be insufficient or may be breached, either of which could potentially result in the unauthorized use or unauthorized disclosure of our trade secrets and other intellectual property, including to our competitors. As a result, we could lose our crucial competitive advantage derived

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from such intellectual property. Significant impairments to our intellectual property rights, and limitations on our ability to assert our intellectual property rights against others, may result in a material and adverse effect on our business.

We may be subject to claims by third parties for intellectual property infringement.

We depend to a large extent on our ability to effectively develop and maintain intellectual property rights relating to our business. However, we cannot assure you that third parties will not put forward claims that our business infringes upon or otherwise violates patents, copyrights or other intellectual property rights which they hold, whether such claims are valid or otherwise. We may face allegations that we have infringed the trademarks, copyrights, patents and other intellectual property rights of third parties, including our competitors, or allegations that we are involved in unfair trade practices. Our products and services may become involved in litigious proceedings relating to allegations of infringement of intellectual property rights, unfair competition, invasion of privacy, defamation and violations of rights of third parties. The validity, enforceability and scope of protection of intellectual property rights, particularly within China, are still evolving. As we face increasing competition and as litigation becomes a more commonly pursued method for resolving commercial disputes in China, we face a higher risk of being the subject of intellectual property infringement claims.

Defending against intellectual property claims is costly and can impose a significant burden on our management and resources. Further, there is no guarantee that we can obtain favorable final outcomes in all cases. Any such intellectual property claims may harm our brand and reputation, even if they are vexatious or do not result in liability. Any resulting liability or expenses, or changes required to our products or services to reduce the risk of future liability, may have a material adverse effect on our business, results of operations and prospects.

If we determine our intangible assets to be impaired, our results of operations and financial condition may be adversely affected.

As of December 31, 2019, 2020 and 2021 and March 31, 2022, our intangible assets amounted to RMB11.8 million, RMB25.8 million, RMB29.3 million and RMB53.9 million, respectively, which consisted of (i) adaptation rights for novels, IP images and cartoon characters for our own use in the AR/VR marketing services and content businesses and on our AR/VR SaaS platform and (ii) computer software. The value of intangible assets is based on a number of assumptions made by our management. If any of these assumptions does not materialize, or if the performance of our business is not consistent with such assumptions, we may have to write off a significant portion of our intangible assets and record a significant impairment loss. In addition, our determination on whether intangible assets are impaired requires an estimation of the carrying amount and recoverable amount of an intangible asset. If the carrying amount exceeds its recoverable amount, our intangible assets may be impaired. During the Track Record Period, we did not recognize impairment losses in respect of our intangible assets. However, we cannot

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guarantee that in the future we will not record any impairment loss on our intangible assets. The impairment of our intangible assets could have a material adverse effect on our business, financial condition and results of operations.

We are dependent on the continued services and performance of our senior management and other key employees, the loss of any of whom could adversely affect our business, operating results and financial condition.

Our future performance depends on the continued services and contributions of our senior management, including our chief executive officer, chief technology officer, chief financial officer, vice president, and other key employees, to oversee and execute our business plans and identify and pursue new opportunities and product innovations. Any loss of service of our senior management or other key employees can significantly delay or prevent us from achieving our strategic business objectives, and adversely affect our business, financial condition and operating results. From time to time, there may be changes in our senior management team, resulting from the hiring or departure of executives, which could also disrupt our business. Hiring suitable replacements and integrating them within our business also requires significant amounts of time, training and resources, and may impact our existing corporate culture.

If we are unable to attract, retain and motivate qualified personnel, our business may be adversely affected.

Our future success depends, in part, on our ability to continue to attract and retain highly skilled personnel specializing in the Internet-related services, software development, marketing and art design. The inability to attract or retain qualified personnel, or delays in hiring required personnel, may cause significant harm to our business, financial condition and operating results. Our ability to continue to attract and retain highly skilled personnel, specifically employees with high level of technical and engineering skills and employees with extensive experience in designing and developing software and Internet-related services, will be critical to our future success. If we lose the services of any such qualified personnel, we may not be able to locate suitable or qualified replacements, and may incur additional expenses to recruit and train new staff, which could severely disrupt our business and growth, therefore materially and adversely affecting our business, financial condition, results of operations and prospects.

Meanwhile, the size and scope of our business may require us to hire and retain a wide range of effective and experienced personnel who can adapt to a dynamic, competitive and challenging business environment. Competition for talent and qualified personnel in the PRC’s AR/VR content and services industry is intense, and the availability of suitable and qualified candidates in the PRC is limited. Competition for these individuals could cause us to offer higher compensation and other benefits to attract and retain them. In addition, even if we were to offer higher compensation and other benefits, we cannot assure you that these individuals would choose to join, or continue working for, us. If we fail to attract and retain personnel with suitable expertise, or to maintain an adequate labor force on a continuous and sustained basis, our financial position and results of operations could be materially and adversely affected.

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Activities of our customers, employees, business partners and/or other third parties or the content of our customers' AR/VR storefronts could damage our brand, subject us to liability and harm our business and financial results.

Our terms of service prohibit our customers from using our solutions or services to engage in illegal activities, and our terms of service permit us to curb these customers, report such illegal use to relevant authorities if we become aware of such illegal use. Our customers may nonetheless engage in prohibited or illegal activities or upload content in violation of applicable laws, which could subject us to liability. Further, our brand may be negatively impacted by the actions of customers that are deemed to be hostile, offensive, inappropriate or illegal. We do not proactively monitor or review the appropriateness of the content of our customers' AR/VR storefronts and we do not have control over customers' activities. The safeguards we have in place may not be sufficient for us to avoid liability or avoid harm to our brand, especially if such hostile, offensive, inappropriate or illegal use is high-profile, which could adversely affect our business and financial results.

Furthermore, our employees, business partners, as well as other third parties who have entered into business relationships with our business partners, may be subject to regulatory penalties or punishments because of their non-compliance, which may, directly or indirectly, affect our business. We cannot be certain whether such third parties have infringed or will infringe any other parties' legal rights or violate any regulatory requirements. We cannot rule out the possibility of incurring liabilities or suffering losses due to any non-compliance by our employees, business partners or other third parties. We cannot assure you that we will be able to identify irregularities or non-compliances of our employees, in the business practices of our business partners or other third parties, or that such irregularities or non-compliance will be corrected in a prompt and proper manner. The legal liabilities and regulatory actions on our employees, business partners or other third parties involved in our business may affect our business activities and reputation, which may in turn affect our results of operations.

We may be subject to legal proceedings in the ordinary course of our business. If the outcomes of these proceedings are adverse to us, they could have a material adverse effect on our business, results of operations and financial condition.

We may be subject to legal proceedings from time to time in the ordinary course of our business, which could have a material adverse effect on our business, results of operations and financial condition. We may receive formal and informal inquiries from government authorities and regulators regarding our compliance with laws and regulations, which are evolving and subject to interpretation. Claims arising out of actual or alleged violations of law could be asserted against us by customers, suppliers, competitors, governmental entities in civil or criminal investigations and proceedings or other entities.

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There is no guarantee that we will be successful in defending ourselves in legal and administrative actions or in asserting our rights under various laws. Even if we are successful in our attempt to defend ourselves in legal and administrative actions or to assert our rights under various laws, enforcing our rights against the various parties involved may be expensive, time-consuming and ultimately futile. These actions could expose us to negative publicity and to substantial monetary damages and legal defense costs, injunctive relief and criminal and civil fines and penalties, including, but not limited to, suspension or revocation of licenses to conduct business.

Our non-compliance with certain regulations regarding certain employee social welfare schemes in the PRC could lead to the imposition of fines and penalties on us.

We are required to make social insurance and housing provident fund contributions for our employees. During the Track Record Period, we did not pay housing provident funds for one employee. If the relevant authorities determine that we have to make supplemental housing provident fund contributions, and that we are subject to administrative fines, our business and financial condition and results of operations may be adversely affected. As advised by our PRC Legal Advisors, we may be subject to maximum administrative fines of RMB50,000 for the above non-payment of housing provident fund contributions. For details of the non-payment of housing provident fund contributions, please refer to “Business — Employees” in this document.

Non-compliance with the PRC advertising laws, rules and regulations could subject us to liabilities.

We provide marketing services to our advertising customers based on AR/VR interactive content in our AR/VR marketing services business. Advertisements from our advertising customers are placed on media platforms such as websites, apps and social media platforms. Under the relevant PRC advertising laws and regulations, we are obligated to monitor the advertising content provided by our advertising customers to ensure that such content is true, accurate and in full compliance with applicable laws and regulations. Violation of these laws and regulations may subject us to penalties, including fines, confiscation of our AR/VR marketing services income, orders to cease dissemination of the advertisements and orders to publish an announcement correcting the misleading information. See the paragraph headed “Regulatory Overview — Laws and Regulations Relating to Marketing Business” in this document. We cannot assure you that all the content contained in the advertisements provided by our advertising customers is true, accurate and in full compliance with applicable advertising laws and regulations, especially given the uncertainty in the application of these laws and regulations. The inability of our systems and procedures to adequately and timely discover such non-compliances by our advertising customers may subject us to regulatory penalties or administrative sanctions.

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In addition, pursuant to relevant PRC advertising laws and regulations, Internet advertisements should not affect users’ normal Internet use and Internet pop-up advertisements must display a “close” sign prominently and ensure one-click close. All Internet advertisements are also required to be marked with the word “advertisement” so that viewers can easily identify them as such. Otherwise, the relevant regulatory authorities may order the online advertising service providers to rectify within a certain time limit and/or impose a fine of no more than RMB100,000. Failure to comply with these requirements and any penalties or fines may reduce the attractiveness of our AR/VR marketing services and increase our costs and could materially and adversely affect our business, results of operations and financial condition.

We cannot assure you that we will not be found to be in violation of applicable PRC advertising laws and regulations, or be subject to penalties or sanctions in the future. If we are subject to such penalties or sanctions, our business, results of operations and financial condition could be materially and adversely affected.

We are subject to complex and evolving laws, regulations and governmental policies regarding privacy and data protection. Actual or alleged failure to comply with privacy and data protection laws, regulations and governmental policies could damage our reputation, deter current and potential customers from using our products and services and could subject us to significant legal, financial and operational consequences.

In recent years, privacy and data protection has become an increasing regulatory focus of government authorities across the world. The PRC Government has enacted a series of laws, regulations and governmental policies for the protection of personal data in the past few years. Such regulatory requirements on data privacy are constantly evolving and can be subject to varying interpretations, or significant changes, resulting in uncertainties about the scope of our responsibilities in that regard. For example, on June 10, 2021, the SCNPC promulgated the PRC Data Security Law (《中華人民共和國數據安全法》), which took effect in September 2021. The Data Security Law provides for a security review procedure for the data activities that may affect national security. On August 20, 2021, the SCNPC promulgated the PRC Personal Information Protection Law (《中華人民共和國個人信息保護法》), which took effect from November 1, 2021, which provides the circumstances under which a personal information processor could process personal information and the requirements for such circumstances. The Personal Information Protection Law clarifies the scope of application, the definition of personal information and sensitive personal information, the legal basis of personal information processing and the basic requirements of notice and consent. On July 10, 2021, the CAC published the Draft Cybersecurity Review Measures (Revised Draft for Comments) (《網絡安全審查辦法(修訂草案徵求意見稿)》). On December 28, 2021, the CAC revised and promulgated the Measures for Cybersecurity Review (2021) (《網絡安全審查辦法(2021)》) (the “**Revised CAC Measures**”), which came into effect on February 15, 2022. The Revised CAC Measures further restates and expands the applicable scope of the cyber security review. Pursuant to the Revised CAC Measures, a platform operator with more than one million users’ personal information aiming to [REDACTED] abroad must apply for cyber security review. In addition, a critical information infrastructure operator purchasing network products and services, and platform operators carrying out data processing activities which affect

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or may affect national security, must apply for cyber security review. We are not a platform operator which possesses personal information of over one million users and Hong Kong does not fall within the definition of “abroad” in the provision. However, we fall into the categories of the platform operators carrying out data processing activities. Given that the determination of “affect or may affect national security” as stipulated in the Revised CAC Measures are subject to further clarification by the CAC, our PRC Legal Advisors are of the view that as at the Latest Practicable Date, it was not necessary for our Group to notify the CAC in writing of the proposed [REDACTED] in Hong Kong. On November 14, 2021, the CAC publicly solicited opinions on the Regulations on the Administration of Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》) (the “**Draft Data Security Regulations**”). According to the Draft Data Security Regulations, data processors shall, in accordance with relevant state provisions, apply for cyber security review when carrying out the following activities: (1) the merger, reorganization or separation of Internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests, which affects or may affect national security; (2) data processors that handle the personal information of more than one million people intends to be [REDACTED] abroad; (3) the data processor intends to be [REDACTED] in Hong Kong, which affects or may affect national security; (4) other data processing activities that affect or may affect national security. However, the Draft Data Security Regulations provide no further explanation or interpretation for the meaning of “affects or may affect national security”. In addition, the Draft Data Security Regulations also regulate other specific requirements in respect of the data processing activities conducted by data processors through Internet in view of personal data protection, important data safety, data cross-broader safety management and obligations of Internet platform operators. For example, the processors of important data or data processors who are [REDACTED] overseas shall carry out data security assessments by themselves or by entrusting data security service agencies every year, and submit the previous year’s data security assessment report to the cyberspace administration at the county-level city before January 31 of each year. As of the Latest Practicable Date, the Draft Data Security Regulations had not come into effect and the public comment period of the Draft Data Security Regulations had ended on December 13, 2021. We cannot predict the impact of the Draft Data Security Regulations, if any, at this stage, and we will closely monitor and assess any development in the rule-making process. It remains uncertain whether the Draft Data Security Regulations will be applicable to our business, or whether the future regulatory changes would impose additional restrictions on companies like us. If the enacted version of the Draft Data Security Regulations mandate clearance of cyber security review and other specific actions to be completed by companies like us, we may face uncertainties as to whether such clearance can be timely obtained, or at all. Failure to comply with the cybersecurity and data privacy requirements in a timely manner, or at all, may subject us to government enforcement actions and investigations, fines, penalties, suspension of our non-compliant operations, among other sanctions. See the paragraph headed “Regulatory Overview — Laws and Regulations Relating to Information Security and Privacy Protection” in this document. As a result, we may be required to implement internal control measures to ensure compliance to comply with such laws and regulations.

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The laws and regulations regarding privacy and data protection in China are generally complex and evolving, with uncertainty as to the interpretation and application thereof. As such, we cannot assure you that our privacy and data protection measures are, and will be, always considered sufficient under applicable laws and regulations. Additionally, the integrity of our privacy and data protection measures is also subject to system failure, interruption, inadequacy, security breaches or cyber-attacks. If we are unable to comply with the then applicable laws and regulations, or to address any data privacy and protection concerns, such actual or alleged failure could damage our reputation, deter existing and potential customers from using our products and services and could subject us to significant legal, financial and operational consequences.

Our strategy of making strategic acquisitions and investments may fail and may result in material and adverse impact on our financial condition and results of operations.

As part of our business growth strategy, we may, in the future, acquire or invest in businesses or companies that we believe can expand and strengthen our product and customer coverage, as well as our technological capabilities. Our ability to implement our acquisition and investment strategy will depend on our ability to identify suitable targets, our ability to reach agreements with them on commercially reasonable terms, and within a desired timeframe, and the availability of financing to complete acquisitions, as well as our ability to obtain any required shareholder or government approvals. Our strategic acquisitions and investments could subject us to uncertainties and risks, including high acquisition and financing costs, potential ongoing financial obligations and unforeseen or hidden liabilities, failure to achieve our intended objectives, benefits or revenue-enhancing opportunities, uncertainty of entering into markets in which we have limited or no experience, and in which competitors have stronger market positions, costs associated with, and difficulties in, integrating acquired businesses and managing a larger business, and diversion of our resources and management attention. Our failure to address these uncertainties and risks may have a material adverse effect on our liquidity, financial condition and results of operations. Even if we are able to successfully acquire or invest in suitable businesses, we cannot assure you that we will achieve our expected returns on such acquisitions or investments. As of the Latest Practicable Date, we had not identified or pursued any acquisition target. If we fail to identify or acquire suitable projects or achieve our expected returns on such acquisitions or investments in the future, our business, financial conditions, results of operations and prospects may be materially and adversely affected.

Acquisitions also pose the risk that we may be exposed to successor liability relating to the actions by an acquired company and its management before and after the acquisition. The due diligence that we conduct in connection with an acquisition or investment may not be sufficient to discover unknown liabilities, and any contractual guarantees or indemnities that we receive from the sellers of the acquired companies or investment target companies and/or their shareholders may not be sufficient to protect us from, or compensate us for, actual liabilities. A material liability associated with an acquisition or investment could adversely affect our reputation and reduce the benefits of the acquisition or investment. In addition, if the management team or key employees of

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an acquired company fail to perform as expected, this may affect the business performance of such acquired company and, in turn, have a material adverse effect on our business, financial conditions and results of operations.

Our internal business systems and organization may not grow efficiently to meet our business expansion plans.

As our customers’ demand continues to grow, we will need to devote additional resources to scaling our business. In addition, we will need to appropriately scale our internal business systems and our organization, including our staff members, to serve our customers’ growing demand. We cannot assure you these improvements and expansions to our business systems and staff will be fully or effectively implemented on a timely basis, if at all. Even if we are able to upgrade our systems and expand our staff, such expansion may be expensive and complex and require our management’s time and attention. We could also face inefficiencies or operational failures as a result of our efforts to expand business scale and staff. Any of these could impair our business performance, reduce customer satisfaction, and lead to departure of customers, which could harm our reputation and adversely affect our business, financial condition, results of operations and prospects.

Increased staff costs could affect our financial performance.

We plan to recruit additional engineers to enhance our R&D capabilities, additional product managers, project managers and art designers to improve our services and products, additional sales and marketing personnel to strengthen and optimize our sales and marketing network, and additional engineers, product managers, art designers and operation and promotion personnel for our Feitian Metaverse platform. For details, please see the paragraph headed “Business - Our Development Strategies” and the section headed “Future Plans and [REDACTED]” in this document. Any additional staff may increase our staff expenses and may therefore adversely affect our profitability. We incurred total staff costs of approximately RMB8.6 million, RMB10.6 million, RMB28.2 million and RMB9.3 million, representing approximately 3.4%, 3.1%, 4.7% and 4.1% of our total revenue for the years ended December 31, 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively. It is estimated that we will incur additional staff costs of approximately RMB35.5 million, RMB54.8 million and RMB72.8 million for the recruitment of additional staff under our expansion plan in the years ending December 31, 2022, 2023 and 2024, respectively. Although our staff expenses will increase upon recruitment of additional staff, there is no assurance that our revenue or gross profit will increase in proportion to or more than the increase in staff costs and therefore our expansion may increase our liquidity risks in cash flows. Furthermore, if there is any unexpected legal or regulatory requirement for recruitment of labor in the PRC, there would be a negative impact on our financial performance and liquidity position.

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We may not have sufficient insurance coverage to cover our potential liability or losses and as a result, our business, financial conditions, results of operations and prospects may be materially and adversely affected should any such liability or losses arise.

We face various risks in connection with our business, and may lack adequate insurance coverage or have no relevant insurance coverage. As of the Latest Practicable Date, we had not had any business disruption insurance or key man insurance. Our insurance coverage may not be sufficient to compensate us for any loss and there is no certainty that we will be able to successfully claim our losses under our current insurance policy on a timely basis, or at all. Any uninsured business disruptions may result in us incurring substantial costs and the diversion of resources, which could have an adverse effect on our business and results of operations.

Legal defects regarding some of our leased properties may adversely affect our business, financial condition and results of operations.

As of the Latest Practicable Date, the lessor of one of our leased properties had not provided us with valid title certificates or relevant authorization documents evidencing the right to lease the property to us. As a result, the lease may not be valid, and we may not be able to continue to use such property if the lessor’s right to lease such property is challenged by any third party. For further information, see the paragraph headed “Business — Properties” in this document. Further, we cannot assure you that we are able to renew our lease on commercially acceptable terms upon expiry, or at all. If the title of any of our leased properties is controversial or the validity of the relevant lease is challenged by any third party, or if we fail to renew our lease upon expiry, we may be compelled to relocate from the affected premises. Such relocation may result in additional expenses or business interruption, which could, in turn, have an adverse effect on our business, financial condition and results of operations.

As of the Latest Practicable Date, five of the lease agreements of our leased properties had not been registered with the competent PRC Government authorities as required by applicable PRC laws and regulations. We cannot assure you that our lessors will cooperate with us to complete the registration in a timely manner, or at all. Our PRC Legal Advisors have advised us that the lack of registration of the lease agreements will not affect the validity of the lease agreements under PRC laws, but we may have a maximum penalty of RMB10,000 imposed on us for each non-registered lease if we fail to complete the lease registration after we are requested to do so by the competent PRC Government authorities. The estimated total maximum penalty is RMB50,000. For details, see the paragraph headed “Business — Properties” in this document.

Our business is sensitive to general economic conditions, and any severe or prolonged downturn in the global or PRC economy could materially and adversely affect our business and financial condition.

Economic conditions in China are sensitive to global economic conditions, and our business may be affected by economic conditions in China and globally. We rely on the spending of our customers, including advertising customers, for our revenue, which may in turn depend on the

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level of disposable income, perceived future earnings and willingness to spend of the end users. Due to uncertain global economic and political conditions, particularly the current trade tension between the U.S. and China, market demand for our services may decrease. In addition, financial turmoil and uncertainties affecting the financial markets, banking systems or currency exchange rates may significantly restrict our ability to obtain financing in the capital markets or from financial institutions on commercially reasonable terms, or at all, which could also materially and adversely affect our business, results of operations and prospects.

We face risks related to natural disasters, health epidemics, and other public safety concerns.

Our business could be materially and adversely affected by natural disasters, health epidemics or pandemics of infectious diseases (including, without limitation, COVID-19) and other public safety concerns. On March 11, 2020, the World Health Organization declared that COVID-19 can be characterized as a pandemic. 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 platform and provide solutions. Our business could also be adversely affected if our employees are affected by health epidemics or pandemics of infectious diseases. In addition, our results of operations could be adversely affected to the extent that any health epidemic or pandemics of infectious diseases harms the national economy in general.

The occurrence of a disaster or a prolonged outbreak of an epidemic illness or other adverse public health developments in China or elsewhere in the world could materially disrupt our business and operations. For example, the ongoing outbreak of COVID-19 since early 2020, including the subsequent Delta variant and Omicron has sickened and killed many people in and outside of China. China and other countries have taken restrictive measures to contain the outbreak of COVID-19, such as quarantine, travel restrictions and home office policy. These measures caused temporary suspension of productions and shortage of labor and raw materials in affected regions, and disrupted local and international travel and economy. The exacerbation, continuance or reoccurrence of COVID-19 has already caused and may continue to cause an adverse and prolonged impact on the economy and social conditions in China and other affected countries. Meanwhile, the nature and origins of this coronavirus disease, and its treatment, have not been fully discovered. We are uncertain as to when the outbreak of the COVID-19 will be fully contained. There is also no assurance that the COVID-19 outbreak will not further escalate, and it may have a material adverse effect on our results of operations. In addition, the outbreak of communicable diseases may affect investment sentiment and result in sporadic volatility in global capital markets. Such pandemic has resulted in restrictions on travel and public transportation and prolonged closures of workplaces, which may have a material adverse effect on the global economy. Any material adverse change in the financial markets, the global economy, the PRC economy or regional economies as a result of these events or developments may materially and adversely affect our business, financial condition and results of operations. For further information on the impact of COVID-19 on our business, see the paragraph headed “Financial Information — Impact of COVID-19 on Our Operations” in this document.

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Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics or pandemics of infectious diseases, including COVID-19, avian influenza, severe acute respiratory syndrome, H1N1 influenza or Ebola virus, may materially and adversely affect our business, financial condition and results of operations. An outbreak of an epidemic or pandemic of infectious disease could result in a widespread health crisis and restrict the level of business activities in affected areas, which may, in turn, materially and adversely affect our business. Moreover, the PRC has experienced natural disasters such as earthquakes, floods and droughts in the past few years. Any future occurrence of severe natural disasters in the PRC may materially and adversely affect its economy and therefore our business. We cannot assure you that any future occurrence of natural disasters or outbreaks of epidemics or pandemics of infectious diseases, including COVID-19, avian influenza, severe acute respiratory syndrome, H1N1 influenza or other epidemics, or the measures taken by the PRC Government or other countries in response to such contagious diseases, will not seriously disrupt our operations or those of our customers, which may materially and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

If the PRC Government determines that our Contractual Arrangements do not comply with applicable regulations, or if these regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interest in our Consolidated Affiliated Entities.

Current PRC laws and regulations impose certain restrictions or prohibitions on foreign ownership of companies that engage in the provision of VATS and other related businesses. In particular, under the Catalog, which was revised in 2020 and the Negative List, our marketing services conducted online under our AR/VR marketing services business segment fall into the provision of VATS which are considered restricted, and our animation video production businesses fall into the radio and television programs production and operation businesses and are considered prohibited. See the paragraph headed “Regulatory Overview — Laws and Regulations Relating to Foreign Investment” in this document. To comply with PRC laws and regulations, we conduct our AR/VR marketing services and animation video production businesses in China through Ophyer Technology and its subsidiaries, based on a series of Contractual Arrangements entered into by and, among other, Beijing Flowing Cloud, Ophyer Technology and the Registered Shareholders. As a result of these Contractual Arrangements, we exert control over Ophyer Technology and its subsidiaries and consolidate their results of operations into our financial statements. Ophyer Technology and its subsidiaries hold the licenses, approvals and key assets that are essential for the operations of our Relevant Businesses. For further details, see the section headed “Contractual Arrangements” in this document. We may enter into similar arrangement in future expansion.

However, there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. The relevant PRC regulatory authorities have broad discretion in determining whether a particular contractual structure violates PRC laws and regulations. Thus, we cannot assure you that the PRC Government will not ultimately take a view contrary to the opinion of our PRC Legal Advisors. If we are found in violation of any PRC laws

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or regulations or if the Contractual Arrangements, among others, Beijing Flowing Cloud, Ophyer Technology and the Registered Shareholders are determined as illegal or invalid by any PRC court, arbitral tribunal or regulatory authorities, the relevant governmental authorities would have broad discretion in dealing with such violation, including, without limitation:

- revoke the agreements constituting the Contractual Arrangements;
- revoke our business and operating licenses held by the relevant Consolidated Affiliated Entities related to our VATS and animation video production businesses;
- require us to discontinue or restrict operations related to any related-party transaction among our Consolidated Affiliated Entities and other members of our Group in connection with VATS and animation video production businesses;
- restrict our right to collect revenue generated from our VATS and animation video production businesses;
- levy fines on us and/or confiscate the proceeds that they deem to have been obtained through non-compliant operations;
- require us to restructure the operations 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 related to our VATS and animation video production businesses;
- impose additional conditions or requirements with which we may not be able to comply;
- take other regulatory or enforcement actions that could be harmful to our business; or
- restrict the [REDACTED] from [REDACTED] or other financing activities.

Furthermore, any of the assets under the name of any record holder of equity interest in our Consolidated Affiliated Entities, including such equity interest, may be put under court custody in connection with litigation, arbitration or other judicial or dispute resolution proceedings against that record holder. We cannot be certain that the equity interest will be disposed of in accordance with the Contractual Arrangements. In addition, new PRC laws, rules and regulations may be introduced to impose additional requirements that may impose additional challenges to our corporate structure and Contractual Arrangements. The occurrence of any of these events or the imposition of any of these penalties may result in a material and adverse effect on our ability to conduct the business. In addition, if the imposition of any of these penalties causes us to lose the rights to direct the activities of our consolidated affiliated entity and its subsidiary or the right to receive their economic benefits, we would no longer be able to consolidate our Consolidated Affiliated Entities, thus adversely affect our results of operations.

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

The Foreign Investment Law was promulgated by the NPC on March 15, 2019, which came into effect as of January 1, 2020. The Foreign Investment Law replaced 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-invested Enterprises Law (《中華人民共和國外資企業法》) to become the legal foundation for foreign investment in the PRC.

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including us, to obtain and maintain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions or prohibitions in China. The Foreign Investment Law stipulates four forms of foreign investment comprising (i) foreign investors set up foreign invested enterprises in China severally or jointly with other investors, (ii) foreign investors acquire shares, equity, properties shares or other similar interest in any domestic enterprise, (iii) foreign investors invest in new projects in China severally or jointly with other investors; and (iv) foreign investors invest through any other methods under laws, administrative regulations, or provisions prescribed by the State Council. However, the Foreign Investment Law does not explicitly stipulate the contractual arrangements as a form of foreign investment, which means our Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements shall not be affected at present.

Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes “*a foreign investor makes investment in any other way stipulated by laws, administrative regulations or provisions of the State Council*”. Therefore, there are possibilities that future laws, administrative regulations or provisions of the State Council may stipulate contractual arrangements as a way of foreign investment, and then whether our Contractual Arrangements will be recognized as foreign investment, whether our Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how our Contractual Arrangements will be handled are uncertain.

In the extreme case-scenario, we may be required to unwind the Contractual Arrangements and/or dispose of our Consolidated Affiliated Entities, which could have a material and adverse effect on our business, financial condition and result of operations. In the event that our Company no longer has a sustainable business after the aforementioned unwinding of the Contractual Arrangements or disposal or such measures are not complied with, the Stock Exchange may take enforcement actions against us which may have a material and adverse effect on the trading of our Shares or even result in [REDACTED] of our Company. For details of the Foreign Investment Law and its potential impact on our Group, see the paragraph headed “Contractual Arrangements — Development in Legislation on Foreign Investment In Mainland China” in this document.

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Our Contractual Arrangements may not be as effective in providing operational control as direct ownership and the Consolidated Affiliated Entities or the Registered Shareholders may fail to perform their obligations under our Contractual Arrangements.

Current PRC laws and regulations impose certain restrictions or prohibitions on foreign ownership of companies that engage in value-added telecommunications, radio and TV program production and operation and other related businesses. In particular, under the Catalog and Negative List, our AR/VR marketing services fall into the VATS and is considered “restricted” and certain of our animation video production businesses fall into the radio and television programs production and operation business and is considered “prohibited.” As a result, we conduct our AR/VR marketing services and animation video production businesses in China through our Consolidated Affiliated Entities, based on a series of Contractual Arrangements by and, among others, Beijing Flowing Cloud, Ophyer Technology the Registered Shareholders. Our revenue and cash flow generated from our AR/VR marketing services and animation video production businesses related businesses are attributable to the Consolidated Affiliated Entities. The Contractual Arrangements may not be as effective as direct ownership in providing us with control over the Consolidated Affiliated Entities. Direct ownership would allow us, for example, to directly or indirectly exercise our rights as a shareholder to effect changes in the boards of directors of our Consolidated Affiliated Entities, which, in turn, could affect changes, subject to any applicable fiduciary obligations at the management level. However, under the Contractual Arrangements, as a legal matter, if our Consolidated Affiliated Entities or the Registered Shareholders fail to perform their respective obligations under the Contractual Arrangements, we may have to incur substantial costs and expend significant resources to enforce those arrangements and resort to litigation or arbitration and rely on legal remedies under PRC laws. These remedies may include seeking specific performance or injunctive relief and claiming damages, any of which may not be effective. For example, if the Registered Shareholders were to refuse to transfer their equity interest in Ophyer Technology 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. In the event we are unable to enforce these Contractual Arrangements or we experience significant delays or other obstacles in the process of enforcing these Contractual Arrangements, we may not be able to exert effective control over our Consolidated Affiliated Entities and may lose control over the assets owned by the Consolidated Affiliated Entities. As a result, we may be unable to consolidate the Consolidated Affiliated Entities in our consolidated financial statements. Given that revenue from our Consolidated Affiliated Entities constitute a substantial amount of the revenue in our historical financial information for the three years ended December 31, 2019, 2020 and 2021 and the three months ended March 31, 2022, our financial condition and results of operations could be materially and adversely impacted.

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We may lose the ability to use and enjoy assets and licenses held by the Consolidated Affiliated Entities that are important to the operation of our business if any of the Consolidated Affiliated Entities declares bankruptcy or becomes subject to a dissolution or liquidation proceeding.

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

Our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and additional taxes may be imposed. A finding that we owe additional taxes could substantially reduce our consolidated net income and the value of your investment.

According to applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to challenge by the PRC tax authorities, additional taxes and interest may be imposed. We would be subject to adverse tax consequences if the PRC tax authorities were to determine that transactions under the Contractual Arrangements between Beijing Flowing Cloud, Ophyer Technology and the Registered Shareholders were not conducted on an arm's-length basis as the PRC tax authorities have the authority to make special tax adjustments on Ophyer Technology's tax position. Such adjustments may adversely affect us by increasing Ophyer Technology's tax expenses without reducing the tax expenses of Beijing Flowing Cloud, subjecting Ophyer Technology to late payment fees and other penalties for under-payment of taxes. Our consolidated results of operations may be adversely affected if Ophyer Technology's tax liabilities increase or if it is subject to late payment fees or other penalties.

The Registered Shareholders may potentially have a conflict of interest with us, and they may breach their contracts with us or cause such contracts to be amended in a manner contrary to our interests.

We conduct the Relevant Businesses through the Consolidated Affiliated Entities. Our control over these entities is based upon the Contractual Arrangements between, among others, Beijing Flowing Cloud, Ophyer Technology and the Registered Shareholders that allow us to control Ophyer Technology. The Registered Shareholders may potentially have a conflict of interest with us, and they may breach their contracts with us if they believe it would further their own interest or if they otherwise act in bad faith. We cannot assure you that when conflicts of interest arise between us and Ophyer Technology, the Registered Shareholders will act completely in our interests or that the conflicts of interest will be resolved in our favor.

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In addition, the Registered Shareholders may breach or cause Ophyer Technology to breach the Contractual Arrangements. If Ophyer Technology or the Registered Shareholders breach their contracts with us or otherwise have disputes with us, we may have to initiate legal proceedings, which involve significant uncertainty. Such disputes and proceedings may significantly disrupt our business operations, adversely affect our ability to control Ophyer Technology and otherwise result in negative publicity. There is also substantial uncertainty as to the outcome of any such legal proceedings.

We conduct the Relevant Businesses in the PRC through the Consolidated Affiliated Entities by way of the Contractual Arrangements, but certain of the terms of the Contractual Arrangements may not be enforceable under PRC laws.

All the agreements which constitute the Contractual Arrangements are governed by PRC laws and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these agreements would be interpreted in accordance with PRC laws and disputes would be resolved in accordance with Arbitration Rules of Chinese Arbitration Institutions. The legal environment in the PRC is not as developed as in other jurisdictions and uncertainties in the PRC legal system could limit our ability to enforce the Contractual Arrangements. In the event that we are unable to enforce the Contractual Arrangements, or if we suffer significant time delays or other obstacles in the process of enforcing them, it would be very difficult to exert effective control over the Consolidated Affiliated Entities, and our ability to conduct our business and our financial condition and results of operations may be materially and adversely affected.

The Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of Ophyer Technology, injunctive relief and/or winding up of Ophyer Technology. These agreements also contain provisions to the effect that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, under PRC laws, these terms may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant injunctive relief or to issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in Ophyer Technology in case of disputes. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China. In addition, arbitration awards are final and can only be forced in PRC courts through arbitration award recognition proceedings, which could cause additional expenses and delays. Therefore, in the event of breach of any agreements constituting the Contractual Arrangements by Ophyer Technology and/or the Registered Shareholders, and if we are unable to enforce the Contractual Arrangements, we may not be able to exert effective control over Ophyer Technology, which could negatively affect our ability to conduct our business.

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

Pursuant to the Contractual Arrangements, Beijing Flowing Cloud or its designated person(s) has the exclusive right to purchase all or any part of the equity interests in Ophyer Technology from the Registered Shareholders and when the relevant foreign ownership restriction is lifted, we will need to unwind the Contractual Arrangements by acquiring the equity interest in Ophyer Technology. The equity transfer may be subject to the approvals from or filings with or reportings to the MOFCOM, the MIIT, the MOCT, the SAIC and/or their local competent branches as well as polices in relation to restrictions on foreign investment. In addition, the equity transfer price may be subject to review and tax adjustment by the relevant tax authority. The Registered Shareholders of Ophyer Technology will pay the equity transfer price they received to Beijing Flowing Cloud under the Contractual Arrangements. The amount to be received by Beijing Flowing Cloud may also be subject to EIT, in which case the amount of tax could be substantial.

We may not be able to meet the VATS Qualification Requirements and our plan to unwind the Contractual Arrangements may be subject to certain limitations.

According to the Regulations for the Administration of Foreign Invested Telecommunications Enterprises (《外商投資電信企業管理規定》), foreign investor who invests in VATS in the PRC must possess the VATS Qualification Requirements. The MIIT issued a guidance memorandum on its official website in relation to the application requirement for establishing foreign-invested VATS enterprises in the PRC. According to this guidance memorandum, an applicant is required to provide satisfactory proof of the VATS Qualification Requirements. The guidance memorandum, however, does not purport to provide an exhaustive list on the application requirement. As confirmed through the consultation with MIIT on June 23, 2021, no applicable PRC laws or regulations or rules provides clear guidance or interpretation on the VATS Qualification Requirements. Furthermore, the MIIT has not provided any further guidance on, among others, the interpretation and implementation of the New Negative List and the impact of the New Negative List on the VATS Qualification Requirements.

Despite the lack of clear guidance or interpretation on the VATS Qualification Requirements, we have been gradually building up our track record of overseas VATS operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests in Ophyer Technology when the relevant PRC laws and authorities allow foreign investors to invest and hold (or to increase, as applicable) equity interests in enterprises which engage in VATS and/or hold the VATS licenses. For further details, see the paragraph headed “Contractual Arrangements — VATS Business — VATS Qualification requirements for foreign investors who invests in VATS in the PRC” in this document.

As the steps taken by us to fulfil the VATS Qualification Requirements are subject to the competent authority’s substantive discretion and their interpretation and implementation of the Negative List, we cannot assure you that we will be able to meet the VATS Qualification Requirements in the future timely and the plan we have adopted will be sufficient to satisfy the

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VATS Qualification Requirements. Notwithstanding our Group plans to unwind and terminate the Contractual Arrangements as soon as practicable to the extent permissible under relevant PRC laws and regulations and when the relevant government authority grants the VATS licenses to sino-foreign equity joint ventures or wholly foreign owned enterprises which are established or to be established by our Company, we may be unable to unwind the Contractual Arrangements before we are in a position to comply with the VATS Qualification Requirements. If we otherwise attempt to unwind the Contractual Arrangements before we satisfy the VATS Qualification Requirements, we may be considered by the regulatory authorities as ineligible for provision of our VATS, which could have a material adverse effect on our business, financial condition and results of operations.

On March 29, 2022, the State Council promulgated the 2022 Decision which came into effect on May 1, 2022. According to the 2022 Decision, the VATS Qualification Requirements as stipulated in the 2016 Regulations were repealed. However, as of the Latest Practicable Date, no applicable PRC laws, regulations or rules had provided clear guidance or interpretation about the 2022 Decision. The interpretation and enforcement of the 2022 Decision and relevant regulations in practice by government authorities remain uncertain. Therefore, our Contractual Arrangements and the business of Beijing Flowing Cloud are subject to the risks and uncertainties in connection with the interpretation and implementation of the 2022 Decision.

RISKS RELATING TO CONDUCTING BUSINESS IN CHINA

Adverse changes in the economic, political and social conditions, as well as policies of the PRC Government, could have a material adverse effect on our business and prospects.

All of our revenue is derived from our businesses in the PRC. Accordingly, our financial condition, results of operations and prospects are, to a material extent, subject to economic, political, and legal developments in the PRC. The PRC economy differs from the economies of developed countries in many respects, including, among other things, the degree of government involvement, control of investment, level of economic development, growth rate, foreign exchange controls, and resource allocation.

Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy for the past four decades, a substantial portion of productive assets in the PRC is still owned by the PRC Government. The PRC Government also exercises significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC Government has implemented measures emphasizing the utilization of market forces in economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance practices in business enterprises. Some of these measures benefit the overall PRC economy, but may adversely affect us. For example, our financial condition and results of operations may be adversely affected by government policies on the Internet service industry in China or changes in tax regulations applicable to us. If the business environment in the PRC deteriorates, our business in the PRC may also be materially and adversely affected.

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

On December 24, 2021, the CSRC issued the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)》) (the “**Draft Administration Provisions**”) and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (境內企業境外發行證券和上市備案管理辦法(徵求意見稿)) (the “**Draft Measures**”). The Draft Administration Provisions and the Draft Measures are open for public comments until January 23, 2022. The Draft Administration Provisions and the Draft Measures regulate overseas securities [REDACTED] and [REDACTED] activities by domestic enterprises in direct or indirect form. The Draft Administration Provisions specify that the CSRC has regulatory to regulate both direct and indirect overseas [REDACTED] and [REDACTED] of PRC domestic companies’ securities, and adopt a filing-based regulatory regime. Overseas [REDACTED] and [REDACTED] that are prohibited by specific laws and regulations, constitute threat to or endanger national security, involve material ownership disputes, the PRC domestic companies, their controlling shareholder or actual controller involving in certain criminal offence, or directors, supervisors and senior management of the issuer involving in certain criminal offence or administrative penalties, among other circumstances, are explicitly forbidden. The Draft Measures provide supplementary rules for the Draft Administration Provisions by specifying the primary filing procedures for overseas securities [REDACTED] and [REDACTED] activities by domestic enterprises in direct or indirect form. If the Draft Administration Provisions and the Draft Measures are fully implemented as-is, we may be required to file in accordance with the Draft Measures. Public consultation for the Draft Administration Provisions and the Draft Measures ended on January 23, 2022. However, the final version and effective date of such regulations are subject to change with substantial uncertainty.

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

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The legal system of the PRC is evolving, and inherent uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to our business and our Shareholders.

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

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

PRC laws and regulations concerning the Internet service industry are developing and evolving. The PRC Government authorities may promulgate new laws and regulations regulating the Internet service industry in the future. We cannot assure you that our practice would not be deemed to violate any new PRC laws or regulations relating to Internet service. Moreover, developments in the Internet service industry may lead to changes in PRC laws, regulations and policies, or in the interpretation and application of existing laws, regulations and policies that may limit or restrict Internet service platforms like ours, which could materially and adversely affect our business and operations.

The successful operations of our business and our growth depend upon the Internet infrastructure and telecommunication network in the PRC.

Our business depends on the performance and reliability of the Internet infrastructure in China. Almost all access to the Internet is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the Ministry of Industry

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and Information Technology of China. In addition, the national networks in China are connected to the Internet through state-owned international gateways, which are the only channels through which a domestic user can connect to the Internet outside of China. We may not have access to alternative networks in the event of disruptions, failures or other problems with China’s Internet infrastructure. In addition, the Internet infrastructure in China may not support the demands associated with continued growth in Internet usage.

The failure of telecommunications network operators to provide us with the requisite bandwidth could also interfere with the speed and availability of our websites. We have no control over the costs of the services provided by the national telecommunications operators. If the prices that we pay for telecommunications and Internet services rise significantly, our gross margins could be adversely affected. In addition, if Internet access fees or other charges to Internet users increase, our user traffic may decrease, which in turn may significantly decrease our revenues.

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

The Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009, and some other established regulations and rules concerning mergers and acquisitions, as well as additional procedures and requirements, could make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements, in some instances, that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Moreover, the Anti-Monopoly Law requires that the MOFCOM shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. In addition, the security review rules issued by the MOFCOM that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise “national defense and security” concerns, and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns, are subject to strict review by the MOFCOM, and the rules prohibit any activities attempting to bypass a security review. 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, which could affect our ability to expand our business or maintain our market share.

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

Under the EIT Law and its implementation rules, an enterprise established outside of the PRC with a “de facto management body” within the PRC is considered a resident enterprise, and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control over, and overall management of the business, productions, personnel, accounts and properties of an enterprise. In April 2009, the SAT issued a circular, known as Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those that are not controlled by PRC enterprises or PRC enterprise groups like us, the criteria set forth in the circular may reflect the SAT’s general position on how the “de facto management body” test should be applied in determining the tax resident status of all offshore enterprises. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China, and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC, (ii) decisions relating to the enterprise’s financial and human resource matters are made, or are subject to approval by organizations or personnel in the PRC, (iii) the enterprise’s primary assets, accounting books, and records, company seals, and board and shareholder resolutions are located or maintained in the PRC, and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

However, the tax-resident status of an enterprise is subject to determination by the PRC tax authorities, and uncertainties remain with respect to the interpretation of the term “de facto management body”. As substantially all of our management members are based in China, it remains unclear how the tax residency rule will apply in our case. If the PRC tax authorities determine that our Company, or any of our subsidiaries outside of China, is a PRC resident enterprise for PRC enterprise income tax purposes, then our Company or such subsidiary could be subject to PRC tax at a rate of 25% on its world-wide income, which could materially reduce our net income. In addition, we will also be subject to PRC enterprise income tax reporting obligations. Further, if the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, gains realized on the sale or other disposition of our ordinary shares may be subject to PRC tax, at a rate of 10% in the case of non-PRC enterprises or 20% in the case of non-PRC individuals (in each case, subject to the provisions of any applicable tax treaty), if such gains are deemed to be from PRC sources. It is unclear whether non-PRC shareholders of our company would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Any such tax may reduce the returns on your investment in our Shares.

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

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

The proceeds from the [REDACTED] will be received in Hong Kong dollars. As a result, any appreciation of the RMB against the Hong Kong dollar may result in a decrease in the value of our proceeds from the [REDACTED]. Conversely, any depreciation of the RMB may adversely affect the value of, and any dividends payable on, our Shares in a foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. Further, we are also currently required to obtain the SAFE's approval before converting significant sums of foreign currencies into RMB. All of these factors could materially and adversely affect our business, financial condition, and results of operations and prospects, and could reduce the value of, and dividends payable on, the Shares in foreign currency terms.

The PRC Government's control of foreign currency conversion may limit our foreign exchange transactions, including dividend payments on our Shares.

The PRC Government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our net revenue in RMB. Under our current corporate structure, our Company in the Cayman Islands relies on dividend payments, indirectly from our PRC subsidiaries, to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. Therefore, our PRC subsidiaries are able to pay dividends in foreign currencies to us without prior approval from SAFE by complying with certain procedures under PRC foreign exchange regulation. However, approval from, or registration with, appropriate governmental authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses, such as the repayment of loans denominated in foreign currencies.

In light of the flood of capital outflows from China in 2016 due to the weakening of RMB, the PRC Government has imposed more restrictive foreign exchange policies, and stepped up scrutiny of major outbound capital movement. More restrictions and a substantial vetting process are in place by SAFE to regulate cross-border transactions falling under the capital account. The PRC Government may, at its discretion, further restrict access to foreign currencies in the future

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for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders.

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

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan, or as an increase in registered capital, are subject to approval by, filing with, or registration with, relevant governmental authorities in China. According to the relevant PRC regulations on foreign-invested enterprises in China, capital contributions to our PRC subsidiaries are subject to the approval of, or filing with, the MOFCOM or its local branch, and registration with other governmental authorities in China. In addition, (i) any foreign loan procured by our PRC subsidiaries is required to be registered with SAFE, or its local branches, and (ii) each of our PRC subsidiaries may not procure loans which exceed the difference between its registered capital and its total investment amount. Any medium-or long-term loan to be provided by us to our PRC subsidiaries must be recorded and registered by the National Development and Reform Committee and the SAFE or its local branches. We may not be able to complete such filing or registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us directly to our PRC subsidiaries. If we fail to complete such filing or registration, our ability to use the proceeds of this [REDACTED], and to capitalize our PRC operations, may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

On March 30, 2015, the SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises, or SAFE Circular 19. SAFE Circular 19 took effect as of June 1, 2015. SAFE Circular 19 launched a nationwide reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises, which allows foreign-invested enterprises to settle their foreign exchange capital at their discretion, but continues to prohibit foreign-invested enterprises from using the RMB fund converted from their foreign exchange capitals for expenditures beyond their business scopes. On June 9, 2016, the SAFE promulgated the Circular on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange, or SAFE Circular 16. SAFE Circular 19 and SAFE Circular 16 continue to prohibit foreign-invested enterprises from, among other things, using RMB funds converted from their foreign exchange capitals for expenditure beyond their business scope, investment in securities or investments other than banks' principal-secured products, providing loans to non-affiliated enterprises or constructing or purchasing real estate not for self-use, except for real estate enterprises. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer to, and use in, China the net proceeds from this [REDACTED], which may adversely affect our business, financial condition and results of operations.

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There is uncertainty with respect to the indirect transfers of equity interests in our PRC resident enterprises through transfers made by our Shareholders or our non-PRC holding companies.

On February 3, 2015, the SAT promulgated the Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (“**Circular 7**”), which replaces certain provisions in the Notice on Strengthening the Administration of Enterprise Income Tax on Equity Transfers of Non-resident Enterprises (國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知) (“**Circular 698**”). Circular 7 provides comprehensive guidelines relating to, and has also heightened the Chinese tax authorities’ scrutiny over, indirect transfers by a non-resident enterprise of assets (including equity interests) of a Chinese resident enterprise (the “**Chinese Taxable Assets**”). For example, Circular 7 states that where a non-resident enterprise transfers Chinese Taxable Assets indirectly, by disposing of equity interests in an overseas holding company directly or indirectly holding such Chinese Taxable Assets, and such transfer is deemed to be, for the purpose of avoiding EIT payment obligations, and without any other bona fide commercial purpose, the transfer may be reclassified by the Chinese tax authorities as a direct transfer of Chinese Taxable Assets. On October 17, 2017, the SAT promulgated the Announcement on Matters Concerning Withholding and Payment of Income Tax of Non-resident Enterprises from Source (國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告) (“**SAT Circular 37**”), which came into force and replaced SAT Circular 698 and certain other rules or regulations on December 1, 2017. SAT Circular 37, among other things, simplifies the procedures of withholding and payment of income tax levied on non-resident enterprises.

Although Circular 7 contains certain exemptions, it is unclear whether any exemptions under Circular 7 will be applicable to the transfer of our Shares, such as purchasing our Shares in the open market, and selling them in a private transaction, or *vice versa*, or to any future acquisition by us outside of China involving Chinese Taxable Assets, or whether the Chinese tax authorities classify such transactions by applying Circular 7. Therefore, the Chinese tax authorities may deem any transfer of our Shares by those of our Shareholders that are non-resident enterprises, or any future acquisitions by us outside of China involving Chinese Taxable Assets, to be subject to the foregoing regulations, which may subject our Shareholders or us to additional Chinese tax reporting obligations or tax liabilities. And, if we fail to comply with Circular 7 and SAT Circular 37, the Chinese tax authorities may take action, including requesting us to provide assistance in their investigation, or may impose a penalty on us, which could have a negative impact on our business operations.

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

The SAFE has promulgated several regulations that require PRC residents and PRC corporate entities to register with, and obtain approval from, local branches of the SAFE in connection with their direct or indirect offshore investment activities. The Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, was promulgated by the SAFE in July 2014, requiring PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. These regulations apply to our shareholders who are PRC residents, and may apply to any offshore acquisitions that we make in the future.

Under these foreign exchange regulations, PRC residents who make, or have previously made, prior to the implementation of these foreign exchange regulations, direct or indirect investments in offshore companies, are required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to update the previously filed registration with the local branch of the SAFE, with respect to that offshore company, to reflect any material change involving its round-trip investment, capital variation, such as a change of PRC shareholders, the name of a company, terms of operation, an increase or decrease in capital, transfer or swap of shares, merger or division. If any PRC shareholder fails to make the required registration or to update the previously filed registration, the PRC subsidiary of that offshore parent company may be restricted from distributing its profits, and the proceeds from any reduction in capital, share transfer or liquidation to its offshore parent company, and the offshore parent company may also be restricted from injecting additional capital into its PRC subsidiary. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions, including (i) the requirement by the SAFE to return the foreign exchange remitted overseas or into PRC within a period of time specified by the SAFE, with a fine of up to 30% of the total amount of foreign exchange remitted overseas or into PRC and deemed to have been evasive or illegal, and (ii) in circumstances involving serious violations, a fine of no less than 30% of and up to the total amount of remitted foreign exchange deemed evasive or illegal.

We are committed to complying with, and to ensuring that our Shareholders who are subject to the regulations will comply with, the relevant SAFE rules and regulations. However, due to the inherent uncertainty in the implementation of the regulatory requirements by PRC authorities, such registration might not be always practically available in all circumstances as prescribed in those regulations. In addition, we may not always be able to compel them to comply with SAFE Circular 37 or other related regulations. We cannot assure you that the SAFE or its local branches will release explicit requirements or interpret the relevant PRC laws and regulations otherwise. Failure by any such Shareholders to comply with SAFE Circular 37 or other related regulations could

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subject us to fines or legal sanctions, restrict our investment activities in the PRC and overseas, or our cross-border investment activities, limit our subsidiaries’ ability to make distributions, pay dividends or make other payments to us, or affect our ownership structure, which could adversely affect our business and prospects. As advised by our PRC Legal Advisors, all PRC residents who are our Shareholders have completed their registration under the SAFE Circular 37. However, we may not be fully informed of the identities of all our Shareholders or beneficial owners who are PRC residents, and we cannot assure you that all of our Shareholders and beneficial owners who are PRC residents will comply with our request to make, obtain or update, any applicable registrations, or comply with other requirements under SAFE Circular 37 or other related rules in a timely manner.

As there is uncertainty concerning the reconciliation of these foreign exchange regulations with other approval requirements, it is unclear how these regulations, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant governmental authorities. We cannot predict how these regulations will affect our business operations or future strategy. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign currency-denominated borrowings, which may adversely affect our results of operations and financial condition. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we, or the owners of such company, as the case may be, will be able to obtain the necessary approvals, or complete the necessary filings and registrations, required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy, and could adversely affect our business and prospects.

Any requirement to obtain approval from the MOFCOM or the CSRC could delay the [REDACTED], and any failure to obtain such approval, if required, could materially and adversely affect our business, operating results and reputation, as well as the trading price of our Shares.

According to the Regulations on Merger with and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “M&A Rules”) jointly issued by the MOFCOM, the SASAC, the SAT, the CSRC, SAIC, and the SAFE on 8 August 2006, effective on 8 September 2006 and amended on 22 June 2009, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise, (ii) subscribes for the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise, (iii) establishes a foreign-invested enterprise to purchase the assets of a domestic enterprise and operate those assets, or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. Where a domestic company or enterprise, or a domestic natural person, through an offshore entity established or controlled by it or him, acquires a domestic company which is related to or connected with it or him, approval from MOFCOM is required. The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for [REDACTED] purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the

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[REDACTED] and trading of such special purpose vehicle’s securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires shares of, or equity in, the PRC companies in exchange for the shares of offshore companies. Our PRC Legal Advisors are of the opinion that the M&A Rules are not applicable because (i) Beijing Flowing Cloud was not established through a merger or acquisition of the equity or assets of a “PRC domestic company” as such term is defined under the M&A Rules, and (ii) no provision in this regulation clearly classifies contractual arrangements as a type of transaction subject to its regulation. Accordingly, our PRC Legal Advisors are of the opinion that prior MOFCOM and CSRC approval under the M&A Rules for this [REDACTED] is not required. However, we cannot assure you that the relevant PRC Government agency, including the MOFCOM and CSRC, would reach the same conclusion as our PRC Legal Advisors. If the MOFCOM, the CSRC or other PRC regulatory agencies subsequently determine that we need to obtain necessary approval for this [REDACTED], or if MOFCOM, CSRC or any other PRC Government authorities promulgates interpretation or implementing rules before our [REDACTED] that would require any necessary governmental approvals for this [REDACTED], we may face sanctions by the MOFCOM, the CSRC or other PRC regulatory agencies. In such event, these regulatory agencies may impose fines and penalties on our operations in China, limit our operating privileges in China, delay or restrict the repatriation of proceeds from this [REDACTED] into the PRC, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, and prospects, as well as the trading price of our Shares. The MOFCOM, the CSRC or other PRC regulatory agencies may also take actions requiring us to halt this [REDACTED] before settlement and delivery of the [REDACTED] by this document.

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

We are an exempted company incorporated in the Cayman Islands, and substantially all of our current operations are conducted in China. In addition, a majority of our current Directors and officers are nationals and residents of China. As a result, it may be difficult or impossible for you to effect service of process within Hong Kong upon us or these persons, or to bring an action in Hong Kong against us or against these individuals in the event that you believe that your rights have been infringed under the applicable securities laws or otherwise. In addition, as there are no clear statutory and judicial interpretations or guidance on a PRC court’s jurisdiction over cases brought under foreign securities laws, it may be difficult for you to bring an original action against us or our PRC resident officers and directors in a PRC court based on the liability provisions of non-PRC securities laws. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our Directors and officers.

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RISKS RELATING TO THE [REDACTED]

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

Prior to the [REDACTED], there has been no public market for our Shares. The initial [REDACTED] for our Shares was the result of negotiations among us and the [REDACTED] (for itself and on behalf of the [REDACTED]) and the [REDACTED] may differ significantly from the market price for our Shares following the [REDACTED]. We have applied for [REDACTED] of and permission to deal in our Shares on the Stock Exchange. There is no assurance that the [REDACTED] will result in the development of an active, liquid public trading market for our Shares. Factors such as variations in our revenue, earnings and cash flows or any other developments of us may affect the volume and price at which our Shares will be traded.

Furthermore, the price and trading volume of our Shares may be volatile. The following factors, among others, may cause the market price of our Shares after the [REDACTED] to vary significantly from the [REDACTED]:

- actual or anticipated fluctuations in our results of operations;
- news regarding recruitment or loss of key personnel by us or our customers;
- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- changes in earnings estimates or recommendations by financial analysts;
- potential litigation or regulatory investigations;
- changes in general economic conditions or other developments affecting us or our industry;
- price movements on international stock markets, the operating and stock price performance of other companies, other industries and other events or factors beyond our control; and
- release of lock-up or other transfer restrictions on our outstanding Shares or sale or perceived sale of additional Shares by us, the Controlling Shareholders or other Shareholders.

In addition, shares of other companies listed on the Stock Exchange with operations and assets in China have experienced significant price volatility in the past. As a result, it is possible that our Shares may be subject to changes in price not directly related to our performance and as a result, investors in our Shares may suffer substantial losses.

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The interests of our Controlling Shareholders may not align with those of our other Shareholders.

Immediately following the completion of the Reorganization and the [REDACTED], our Controlling Shareholders will directly and indirectly own an aggregate of [REDACTED] of our Shares. The interests of our Controlling Shareholders may differ from the interests of our other Shareholders. Our Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matters submitted to our Shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of Directors and other significant corporate actions. This concentration of ownership, as a result, may discourage, delay or prevent a change in control of our Company, which could deprive our Shareholders of an opportunity to receive a premium for their Shares in a sale of our Company or may reduce the market price of our Shares. In addition, to the extent the interests of our Controlling Shareholders conflict with the interest of our other Shareholders, the interests of our other Shareholders may be disadvantaged or harmed.

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

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

Substantial future sales or the expectation of substantial sales of our Shares in the public market could cause the price of our Shares to decline.

Sales of substantial amounts of Shares in the public market after the completion of the [REDACTED], or the perception that these sales could occur, could adversely affect the market price of our Shares. Although our Controlling Shareholders are subject to restrictions on its sales of Shares within 12 months from the [REDACTED] as described in “[REDACTED]” in this document, future sales of a significant number of our Shares by our Controlling Shareholders in the public market after the [REDACTED], or the perception that these sales could occur, could cause the market price of our Shares to decline and could materially impair our future ability to raise capital through [REDACTED] of our Shares. We cannot assure you that our Controlling Shareholders will not dispose of Shares held by them or that we will not issue Shares pursuant to the general mandate to issue shares granted to our Directors as described in “Appendix IV — Statutory and General Information” or otherwise, upon the expiration of restrictions set out above. We cannot predict the effect, if any, that any future sales of Shares by our Controlling Shareholders, or the availability of Shares for sale by our Controlling Shareholders, or the issuance

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of Shares by our Company may have on the market price of the Shares. Sale or issuance of a substantial amount of Shares by our Controlling Shareholders or us, or the market perception that such sale or issuance may occur, could materially and adversely affect the prevailing market price of the Shares.

You may face difficulties in protecting your interests because we are incorporated under Cayman Islands law, and these laws relating to the protection of interests of minority shareholders differ in some respects from those in Hong Kong and other jurisdictions.

Our corporate affairs are governed by our Articles of Association, the Cayman Companies Act, and the common law of the Cayman Islands. The rights of shareholders to take action against directors, the rights of minority shareholders to institute 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. 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.

There may be dilution because of issuance of new Shares or equity securities.

In spite of our current bank balances and cash and the [REDACTED] from the [REDACTED], we may require additional funds due to changes in business conditions or other future developments relating to, inter alia, our existing operations or any future expansions. The amount and timing of such additional financing needs will vary depending on the timing investments in and/or acquisitions of new businesses from third parties, and the amount of cash flow from our operations. If our resources are insufficient to satisfy our cash requirements, we may seek additional financing through selling additional equity or debt securities or obtaining a credit facility. The sale of additional equity securities could result in additional dilution to our Shareholders. If additional funds are raised by way of issuance of new Shares or equity linked securities other than on a pro rata basis to existing shareholders, the percentage of ownership of our existing Shareholders in our Company, the earnings per Share and the net asset value per Share may be reduced.

Because the initial [REDACTED] per Share is higher than the net tangible book value per Share, purchasers of our Shares in the [REDACTED] will experience immediate dilution.

The [REDACTED] of our [REDACTED] is higher than the net tangible book value per Share immediately prior to the [REDACTED]. Therefore, purchasers of our Shares in the [REDACTED] will experience an immediate dilution. Existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible assets value per share of their shares. If we issue additional Shares in the future, purchasers of our [REDACTED] may experience further dilution.

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We may be unable to declare dividends on our Shares in the future.

We currently do not have any predetermined dividend payout ratio. The amount of dividends actually distributed to our Shareholders will depend on our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, shareholders’ interests and such other conditions and other factors that our Directors may deem relevant and will be subject to approval of our Shareholders. Our Directors have the absolute discretion to recommend any dividends. See the paragraph headed “Financial Information — Dividends” in this document.

Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors. Our future payments of dividends will be at the absolute discretion of our Directors. We cannot assure you when or whether we will pay dividends in the future.

If securities or industry analysts do not publish research reports about our business, or if they adversely change their recommendations regarding our Shares, the market price and trading volume of our Shares may decline.

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

Certain statistics contained in this document are derived from official government sources and they may not be reliable.

Certain statistics contained in this document relating to China, the PRC economy and the industries in which we operate have been derived from various official government publications or reports. We have taken reasonable care in the reproduction or extraction of the official government publications or reports for the purpose of disclosure in this document, however, we cannot assure you that the quality or reliability of such source materials. They have not been prepared or independently verified by us, the [REDACTED] or any of their respective affiliates or advisors and, therefore, we make no representation as to the accuracy of such statistics from these official government sources, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, such statistics from these official government sources in this document may be inaccurate or may not be comparable to statistics produced with respect to other economies. Further, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as the case may be in other jurisdictions. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts.

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

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