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## RISK FACTORS

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*An [REDACTED] in our Shares involves a high degree of risk. You should consider carefully all the information set out in this document and, in particular, should evaluate the following risks associated with the [REDACTED] in our Shares. You should pay particular attention to the fact that we conduct our operations in China, the legal and regulatory environment of which in some respects may differ from that in Hong Kong and other jurisdictions. Any of the risks and uncertainties described below could have a material adverse effect on our business, results of operations, financial condition or on the [REDACTED] of our Shares, and could cause you to lose all or part of your [REDACTED].*

We believe that there are certain risks involved in our operations, some of which are beyond our control. We have categorized these risks and uncertainties into: (i) risks relating to our business and industry; (ii) risks relating to our Contractual Arrangements; (iii) risks relating to doing business in China; and (iv) risks relating to the [REDACTED].

### RISKS RELATING TO OUR BUSINESS AND INDUSTRY

**If our Easou AI Recommendation Engine fails to properly analyze and predict the users' behaviors and preferences or to keep up with the technological changes, our business, results of operations, financial condition and prospects may be materially and adversely affected.**

Our business primarily depends on our technical ability to precisely and accurately recommend suitable digital content to users. We have successfully applied our Easou AI Recommendation Engine to the following four application scenarios: online literature recommendation, digital marketing, online games publishing and other digital content. The user experience largely depends on the technical advancement of our Easou AI Recommendation Engine and the breadth and depth of the specific application scenarios. Our Easou AI Recommendation Engine study the characteristics of data and the behaviors of users in specific scenarios, predict their demands for digital content therein, and recommend suitable digital content that may be of interest to them. However, we cannot assure you that our Easou AI Recommendation Engine can remain advanced as compared to those employed by our competitors, nor we can assure you that we can apply our Easou AI Recommendation Engine effectively to each application scenario. We may not be able to precisely and accurately analyze users' preferences and predict their appetite towards digital content, and thus, we may not be able to provide tailored products and services to meet their needs.

Our future success also depends on our ability to improve the technologies underlying our Easou AI Recommendation Engine and provide precise and accurate recommendation services on a continuing basis. If we fail to adapt our services to technological changes in an effective and timely manner, or if we adopt new technologies that turn out to be less proven than we expect, or if our Easou AI Recommendation Engine or existing business model cannot fit in new application scenarios, we may suffer from decreased user traffic, which may result in a decrease of revenue from our application scenarios. In addition, enhancing the existing technologies and incorporating new technologies into our products and services may involve numerous technical challenges, substantial requirements of capital and personnel resources and significant time, and we may not be able to meet these challenges effectively due to various factors, some of which are beyond our control. Although we have and will continue to devote significant resources to the enhancement

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and development of the technologies we utilize and the services we provide, we may not be able to effectively develop new technologies or improve existing technologies, which may decrease user satisfaction. Moreover, new technologies may not succeed or integrate well with our existing products and services. Even if integrated, these technologies may not function as expected or may not help us retain existing users, grow user base or enhance user engagement.

**The application scenarios of our Easou AI Recommendation Engine belong to separate and independent industries, and the developments in those industries could subject our business to risks, which makes it difficult to evaluate our business and prospects.**

The application scenarios of our Easou AI Recommendation Engine belong to separate and independent industries. Therefore, our business operation is subject to the changes and developments in these industries, which may fluctuate drastically from time to time. For example, as one of our application scenarios, our online literature recommendation services are subject to the overall development of China's internet business industry and online literature industry. According to Analysys, the online literature market in China has grown from RMB16.7 billion in 2016 to RMB41.6 billion in 2021, representing a CAGR of 20.1%, and is expected to further increase to RMB52.7 billion in 2025, representing a CAGR of 7.8% from 2022 to 2025. In addition, digital marketing and online games are our other important application scenarios. China's digital marketing industry and online games industry both realized growth in the past five years. However, the growth in each of our business lines may not be sustainable in the future and is subject to various factors that are uncertain and beyond our control, including the general economic conditions, the fluctuation or downturn in the overall development of the industries that we operate in, the change in people's leisure time and uncertainties of the relevant laws, rules and regulations. As a result, our business, financial condition and results of operations may be materially and adversely affected. For details, please see "Industry Overview" in this document.

**If we fail to anticipate user/customer preferences and provide attractive services, or if we fail to keep up with rapid changes in user behavior or customer requirements, we may not be able to retain existing users, attract sufficient user traffic or enhance customer engagement.**

Our ability to retain, grow and engage our users and customers depends heavily on our ability to provide satisfactory user and customer experience in each application scenario. Due to the changing users' tastes and preferences in each application scenario and the evolving industry standards, we must predict and cater to the needs of our users and customers, provide precise and accurate recommendation services and attractive digital content, introduce successful new services and develop user-/customer-friendly platform features and functions. For example, according to Analysys, the growth of free online reading model in terms of user scale is more rapid than that of paid online reading model with broad user acceptance in China's online literature market, and we are exposed to the ongoing free-to-read industry trends that are highly competitive, where failure to manage sustainable monetization model or maintain or expand the user base with preference for free online reading could adversely affect our business, results of operations and financial condition. We cannot assure you that we will be able to anticipate the changes in user or customer preferences, and respond to such changes in a timely and effective manner. If we are unable to provide satisfactory user or customer experience, we may not be able to expand our user or customer base, and user or customer engagement in our products and services, as the case may be, may decline, which could materially and adversely affect our business and growth prospects.

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The acquisition and engagement of our users and customers may fluctuate depending on a number of factors, some of which are beyond our control, such as the competition for internet users' time and attention from live streaming and short video, business changes in our channel partners and the macroeconomic environment in China. We experienced an increase in the size of our active user base since the COVID-19 pandemic and we have benefited from the growth of the per capita consumption expenditure of Chinese residents on education, culture and entertainment. We may not be able to maintain the growth of our user or customer base, or continue to focus on user or customer acquisition or engagement in the long term. Even if we could manage to grow our user or customer base and increase the level of user/customer engagement, we may incur additional costs, such as licensing fees and royalties for paid content to further expand our content library to meet the growing and diversified demands of our users/ customers. If such expansion is not properly managed or if we are unable to generate sufficient revenue to outpace the increase in costs, we may incur more losses and our business, financial condition and results of operations may be materially and adversely affected.

**We operate in highly competitive industries. If we are unable to compete effectively against other industry players, our user and customer bases, market share and profitability may be materially and adversely affected.**

We face competition in every aspect of our business and in each industry involving our various application scenarios, including the availability of digital content on our platform, the ability to identify and satisfy user or customer preferences, the availability of and ability to access the digital content resources from different channels, the ability to keep up with the changes in industry competitive landscape, and the effectiveness of evolving marketing methods, such as live and short-video marketing, among other things. Please see the section headed "Business – Competition" in this document.

Some of our competitors may have greater financial, R&D and other resources than us. They may use their resources in ways that could affect our competitive position, including providing new services, continuing to invest heavily in R&D and in talent, making acquisitions, and the acquisition of user traffic and digital content. We also cannot assure you that our current or potential competitors will not market services comparable or superior to those we provide or adapt more quickly to the evolving industry trends or changing regulatory requirements. We may also need to increase spending on marketing, advertising and new service innovations to maintain or increase our existing market share, and incur additional R&D expenses, which could place pressure on our gross profit margin and affect our profitability. For the years ended December 31, 2020 and 2021 and nine months ended September 30, 2021 and 2022, our selling and distribution expenses amounted to RMB121.7 million, RMB99.3 million, RMB75.3 million and RMB98.8 million, respectively, which accounted for approximately 29.7%, 22.9%, 23.9% and 29.7% of our total revenue, respectively. For the same periods, our R&D expenses amounted to RMB54.0 million, RMB51.0 million, RMB38.8 million and RMB28.7 million, respectively, which accounted for approximately 13.2%, 11.8%, 12.3% and 8.6% of our total revenue, respectively. We cannot guarantee that our sales and marketing and R&D efforts will be sufficient to compete with our competitors.

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In addition, any of our current or future competitors may be acquired by, receive investments from or enter into other strategic or commercial relationships with larger, more established industry players and/or financial institutions and therefore, obtain significantly greater financial, marketing and development resources than we do. If any of our competitors achieves greater market acceptance than we do or is able to offer more attractive or comparable contents or services at lower costs, our user and customer bases and market share may decrease, which may have a material adverse effect on our business, financial condition and results of operations.

**We do not produce proprietary digital content and primarily rely on third-party content providers of online literature, online games and other digital content to recommend to our users and customers.**

As we are an independent third-party intelligent recommendation platform, we do not produce any proprietary digital content. We typically rely on third-party content providers to provide digital content and then distribute their digital content through our platform. Such third-party content providers primarily include literature content providers and game content providers. However, there can be no assurance that our cooperation agreements with third-party content providers will be extended or renewed after their respective expiration or that we will be able to extend or renew such agreements on terms and conditions favorable to us. In terms of access to digital content, we may face delays in launching new digital content as we are selective in choosing the suitable content offerings from third-party content providers. We may not be able to timely access high-quality or comprehensive digital content, or at all. In addition, if any of our third-party content providers breaches its obligations under any of these agreements, we may lose a portion of the user base we have developed and maintained. In the event that this occurs, our business growth and prospects may be materially and adversely affected.

**Our online literature recommendation services accounted for a significant portion of our revenue during the Track Record Period. If we fail to retain our user or if user engagement ceases to grow or declines, which may materially and adversely affect our business, financial condition, results of operations and prospects.**

With respect to our online literature recommendation services business, we offer literary content to our users under free online reading model (i.e., free online reading recommendation with advertising services) and paid online reading model (i.e., paid online reading recommendation services) primarily through our Easou Reading App Series. Under the free online reading model, we obtain advertising revenue from advertising customers while users watch or click digital advertisements during their reading. Under the paid online reading model, we charge users by “pay-per-chapter”, premium membership fees or “monthly/quarterly/yearly subscription package”. During the Track Record Period, a significant portion of our revenue was generated from online literature recommendation services. For the years ended December 31, 2020 and 2021 and nine months ended September 30, 2021 and 2022, the revenue generated from our online literature recommendation services amounted to RMB185.4 million, RMB218.1 million, RMB162.2 million and RMB176.9 million respectively, which accounted for approximately 45.2%, 50.4%, 51.6% and 53.2% of our total revenue, respectively. For the same periods, we had average MAU on our Easou Reading App Series of 21.1 million, 23.9 million, 23.6 million and 25.5 million, respectively.

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We believe online literature recommendation services will continue to be an important revenue stream of us in the future. The success of our business depends largely on our ability to generate sufficient user traffic, retain existing users and attract new users. In order to do so, we must launch products and services that meet users' reading habits, update and enrich literary resources in a timely manner, continuously recommend literary content to users that meet their evolving preferences, provide reasonable pricing for paid online reading resources, hold promotional activities and maintain good interaction with the users. If we fail to satisfy the evolving needs and preferences of our users, or if we fail to provide satisfactory user experience, our users may find our services not attractive and may reduce their spending or time associated with using on our platform, which may lead to a reduction of user traffic and our user base. The failure to retain existing users or attract new users could materially and adversely affect our business, financial condition, results of operations and prospects.

**We generate a significant portion of our revenue from digital marketing services. If we fail to attract new advertising customers, retain existing advertising customers, or maintain their demand for our services, our business, results of operations and financial condition may be materially and adversely affected.**

Our advertising customers mainly comprise advertisers and third-party advertising agencies. We generated a significant portion of our revenue from digital marketing services during the Track Record Period. For the years ended December 31, 2020 and 2021 and nine months ended September 30, 2021 and 2022, revenue generated from our digital marketing services amounted to RMB153.3 million, RMB201.6 million, RMB141.4 million and RMB148.2 million respectively, which accounted for approximately 37.4%, 46.5%, 44.9% and 44.6% of our total revenue, respectively. Our ability to grow the digital marketing services depends on a number of factors, including application of new technologies, combination of digital content resources, maintenance and enhancement of our brand, engagement and loyalty of our customers, market competition on advertising prices and changes in the regulatory environment. We cannot assure you that we will be able to retain existing customers or attract new ones. There is also uncertainty about the demand of digital marketing services from advertising customers. If we fail to retain and enhance our relationships with our advertising customers, our business, financial condition, results of operations and prospects may be adversely affected.

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**We temporarily suspended our online games publishing services beginning in June 2020 and began to resume such services in December 2021. If we fail to promote new games with good market reception or efficiently and effectively operate our existing games, we may not be able to maintain or grow our revenue generated from online game publishing and our business, financial condition and results of operations may be materially and adversely affected.**

During the Track Record Period, we derived a majority of our revenue in the online games publishing services business from a small number of landmark games, including The Bold and The Beauty (愛江山更愛美人) and Age of Empires (帝王世紀). These games in the aggregate contributed approximately 99.8% and 86.3% of our revenue from online games publishing services in 2020 and 2021, respectively. To further optimize our business structure and streamline our operations, we strategically suspended our online games publishing services on a temporary basis in June 2020 and only retained the publishing of Age of Empires (帝王世紀) through a few channels. We subsequently began to resume our online games publishing services in December 2021 after we completed the optimization and determined that it was beneficial to do so. Please see “Business – Our Business Model – Online Games Publishing Services” in this document for further details.

Although we have maintained the majority of core team of our online games publishing services, we experienced fluctuation in the number of game team staff and made certain adjustments in team functions during the Track Record Period. Currently, we primarily rely on our existing technologies and know-hows to resume our operation in online games publishing services, recruit and retain talents to meet our demand in the development of our online games publishing services in a cost-effective manner. We cannot assure you that we could keep up with the latest industry trends and technologies or we could recruit and retain sufficient talents. If we fail to do so given the rapid changes in China’s online games industry, our growth and prospects may be materially and adversely affected.

In addition, we expect that we will continue to focus on searching and testing SLGs and female-oriented games based on our internal standards and criteria on online game selection, and anticipate that the future landmark games will be able to contribute revenue to our online games publishing services business. However, we cannot assure you that these games will continue to attract and retain a sufficient number of users, as our users may lose interest in these games if their interests and preferences change over time or if they become attracted to newer games genres.

Our growth also depends on our ability to continuously launch new games that attract and retain a significant number of users, which in turn depends on our ability to (i) test new games in a timely manner and evaluate new games thoroughly based on our internal criteria; (ii) anticipate and respond to the changes in users’ interests and preferences; (iii) source, sustain and expand the games that appeal to our users; (iv) effectively market new games and enhancements to our existing and prospective users; and (v) minimize launch delays and cost overruns on new games and enhancements. In addition, there are some factors affecting the introduction and operation of new games that we believe are beyond our control, including, among others, (i) any failure by game content providers to upgrade, enhance or optimize the features of these games in a timely manner or at all; (ii) any lasting or prolonged server interruption due to technical failures or other reasons; and (iii) any other unfavorable changes made to these games, after we have selected and published them.



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Moreover, policy uncertainty exists in China's online games industry. For example, China started to tighten its international standard book number ("ISBN") policy for game developers in July 2021 and did not release any ISBN for new games until April 2022. The new games that we plan to launch in China were still in the process of ISBN application review as of the Latest Practicable Date. Any failure to keep up with online games industry regulatory dynamics, our business, financial condition and results of operations could be materially and adversely affected.

**The profitability of our online games publishing services depends largely on the life cycles of the games and we cannot assure you the length of time a game would be active at each life cycle stage and that it will continue to enjoy revenue-generating capability during each stage.**

Our online games generally experience several stages in their life cycles, including (i) the growth stage, during which we build up user base and achieve market coverage; (ii) the maturity stage, during which the revenue tends to be continuously and steadily generated by the games and the number of game users generally remains stable during this stage; and (iii) the recession stage, during which the number of game users and revenue generated by the games may decline. Our games may rely on either the growth stage or the maturity stage for generating a significant portion of revenue. We cannot predict how long a game would stay at each life cycle stage and whether a game with a shorter maturity stage may generate less revenue than a game with a longer maturity stage. Therefore, the life cycle stages vary from game to game and may not be indicative of a game's rate of growth and revenue-generating which may cause uncertainties on our profitability and results of operations.

**The PRC government has taken steps to limit online game playing time for all minors and to monitor the content and operation of online games. Such restrictions on online games may materially and adversely impact our business and results of operations.**

Minors (youth under the age of 18) in China are prohibited from playing games exceeding a certain period of time per day or putting money into their accounts exceeding a certain amount and are required to complete real name registration before they log in their game accounts. On August 30, 2021, National Press and Publication Administration released Notice on Further Strict Management and Practically Preventing Minors from Indulging in Online Games (《國家新聞出版署關於進一步嚴格管理切實防止未成年人沉迷網絡遊戲的通知》), which imposed restrictions over the provision of online gaming services to minors, aiming at curbing excessive indulgence in online game and protecting minors' mental and physical health. For a detailed description of these regulations, see "Regulatory Overview – Regulations Relating to Online Games – Anti-addiction System and Protection of Minors" in this document. Although the provision of our games is not specifically targeting minors, further restrictions on the content and operation of online games could negatively affect our business operations and financial performance, as online game operators are required to explore the manners to be used to notify users of different ages about the online games based on various criteria, such as the game content and the amount of money anticipated to be charged for playing the games, on the game's download, registration and log-in pages in a prominent way.

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**If our expansions into new businesses and monetization strategies are not successful, our future results of operation and growth prospects may be materially and adversely affected.**

As part of our growth and monetization strategies, we may expand our existing businesses to more markets and apply our Easou AI Recommendation Engine to more application scenarios, such as the application of metaverse games and NFT, and enter into new businesses or industries through organic business initiatives or investments and/or acquisitions.

Expansions into new businesses may present operating, marketing and compliance challenges that differ from those that we currently encounter in the course of our operations. These challenges include, but are not limited to, (i) the failure of our Easou AI Recommendation Engine to effectively collect and analyze the data in the new industry due to a lack of proven AI-based recommendation technology; (ii) the low digitalization of the new industry, which prevents us from capturing sufficient data for our Easou AI Recommendation Engine to perform the analysis; and (iii) the substantial amount of data in the new industry could require a significant increase in our capital expenditures to effectively implement the application of our Easou AI Recommendation Engine in the new industry.

We may enter into other markets and industries that are new to us through organic business initiatives or investments and acquisitions. However, we cannot assure you that such efforts will be successful. For these new markets and industries, we may not have sufficient experience and may not be able to navigate the rapidly evolving regulatory environment, forecast and meet the continually changing user/customer demands and preferences for products and services, adopt new technologies, recruit qualified talents and effectively manage our operating cost. Some of these new markets and industries are emerging with relatively novel and untested business models. Any of the foregoing could pose significant challenges to us. We may not realize the anticipated benefits of our investments or acquisitions, due to (i) the uncertainties related to the performance and valuation of the relevant targets; (ii) failure to integrate the acquired businesses into our Group; or (iii) the difficulty in operating the acquired businesses with our existing expertise and resources. See also “– If we are not able to properly manage our overseas expansion, our business, results of operations, financial condition and prospects may be materially and adversely affected” in this section.

It is uncertain whether our strategies will attract new users and customers or generate sufficient revenue required to succeed. If we fail to generate sufficient usage of our new services, our revenue may not grow in line with the significant resources we invest in these new businesses. This may negatively impact our gross profit margin and operating income. Commercial success of our expansion into new business domains depends on many factors, including technological innovativeness, overall competitiveness, effectiveness of distribution and marketing, and pricing and investment strategies. Accordingly, we may not be able to achieve significant revenue contribution from the new businesses we developed or acquired/invested in for several years, or at all, and we may incur significant losses during the process and fail to recoup our investments. If the markets of our new businesses do not develop and grow as we anticipate, we may incur significant losses from new businesses and our business, results of operations and growth prospects may be materially and adversely impacted.



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**If we are not able to properly manage our overseas expansion, our business, results of operations, financial condition and prospects may be materially and adversely affected.**

We intend to further expand our online games publishing services to international markets, including Europe, the United States, Japan and Korea. We also plan to expand our online literature recommendation services overseas and are actively searching for suitable markets. Our business expansion may subject us to the dynamic and complex challenges of conducting business in an environment involving multiple languages, cultures, customs, legal systems, alternative dispute resolution systems and commercial infrastructures. A number of risks could adversely affect our operations and expansion in international markets, including:

- our limited prior experience in international business operation;
- increased and sometimes conflicting regulatory compliance requirements;
- increased costs to protect intellectual property rights and enforce data security;
- inability to cope with protectionist laws and business practices that favor local businesses in some countries;
- inability to recruit and retain talented and capable management and employees with the experience and insight necessary for global operation;
- inability to cope with challenges caused by distance, language and cultural differences;
- inability to localize and customize our services and other offerings to cater for the preferences of overseas users;
- inability to implement alternative payment methods for virtual items in a manner that complies with local laws and practices and protects us from payment fraud;
- currency exchange rate fluctuations;
- inability to build and maintain strong relationships with local partners; and
- political, economic and social instability.

If we are unable to effectively manage the risks and costs associated with our overseas expansion in our online games publishing services and our online literature recommendation services, our growth and prospects may be materially and adversely affected.

**Privacy and cybersecurity concerns relating to our use of user information, or any actual or perceived failure by us or third parties to comply with applicable data protection laws and regulations or privacy policies, could negatively impact our reputation, subject us to governmental or legal obligations and substantially harm our business.**

We collect, store and process certain personal data of our users in order to provide services and better understand them and their needs, which subject us to cybersecurity and data privacy laws in China and other applicable jurisdictions, including without limitation the Constitution of

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the PRC (《中華人民共和國憲法》), the Criminal Law of the PRC (《中華人民共和國刑法》), the Civil Code of the PRC (《中華人民共和國民法典》), the Cybersecurity Law of the PRC (《中華人民共和國網絡安全法》) (the “PRC Cybersecurity Law”), the Data Security Law of the PRC (《中華人民共和國數據安全法》) (the “PRC Data Security Law”), and the Personal Information Protection Law of the PRC (《中華人民共和國個人信息保護法》) (the “PRC Personal Information Protection Law”), pursuant to which we are required to ensure the security and stability of the services provided via network and protect individual privacy and the security of personal data. The personal data of our users include, among others, their identification numbers on our platform, and certain of their billing information, such as their payment amounts.

Concerns about the collection, use, disclosure or security of personal information or other privacy-related matters, even for those without merit, could damage our reputation, cause us to lose users and adversely affect our business and results of operations. We are required by privacy and data protection laws in China, including, without limitation, the PRC Cybersecurity Law, to ensure the confidentiality, integrity and availability of the information of our users, customers and third-party content providers, which is also essential to maintaining their confidence in our services.

In November 2016, the SCNPC promulgated the PRC Cybersecurity Law, which provides that network operators must meet their cybersecurity obligations and must take technical measures and other necessary measures to protect the safety and stability of their networks. Pursuant to the PRC Cybersecurity Law, network operators must not, without users’ consent, collect their personal information, and may only collect such personal information necessary to provide their services. Providers are also obliged to provide security maintenance for their products and services and shall comply with provisions regarding the protection of personal information as stipulated under the relevant laws and regulations. Although we only gain access to user information that is necessary for, and relevant to, the services provided, the data we obtain and use may include information that is deemed as “personal information” under the PRC Cybersecurity Law and related data privacy and protection laws and regulations. See “Regulatory Overview – Regulations Relating to Cybersecurity, Data Security and Personal Information Protection” in this document.

On June 10, 2021, the SCNPC promulgated the PRC Data Security Law, which became effective on September 1, 2021. The PRC Data Security Law imposes data security and privacy obligations on entities and individuals carrying out data activities, and introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, as well as the degree of harm it will cause to national security, public interests, or legitimate rights and interests of individuals or organizations when such data is tampered with, destroyed, leaked, or illegally acquired or used. The PRC Data Security Law provides for a data security review procedure for the data processing activities that affect or may affect national security. It also imposes data security obligations on persons and entities conducting data processing activities and requires data processors to take necessary measures to protect data security. On July 6, 2021, the General Office of the CPC Central Committee and the General Office of the State Council jointly promulgated the Opinions on Strictly Combatting Illegal Securities Activities (《關於依法從嚴打擊證券違法活動的意見》), which called for a heightened scrutiny over overseas-listed China-based companies of their compliance with the laws and regulations regarding data security, cross-border data flow and management of confidential information, and such laws and regulations are expected to undergo further changes, which may

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require increased information security responsibilities and stronger cross-border information management mechanism and process. As a network platform operator who possesses personal information of more than one million users for purposes of the Cybersecurity Review Measures, and as advised by our PRC Legal Advisers in connection to Data Compliance, the risk of us being required to apply for cybersecurity review with respect to our proposed overseas [REDACTED] pursuant to the Cybersecurity Review Measures is relatively low as of the Latest Practicable Date.

On August 20, 2021, the SCNPC promulgated the PRC Personal Information Protection Law, which came into effect in November 2021. In addition to other rules and principles of personal information processing, the PRC Personal Information Protection Law specifically provides rules for processing sensitive personal information. The PRC Personal Information Protection Law requires, among others, that (i) the processing of personal information shall have a clear and reasonable purpose, which shall be directly related to the processing purpose in a method that has the least impact on personal rights and interests; (ii) where a personal information processor provides other personal information processors with the relevant personal information, it shall inform the individual of the name and contact information of the recipient, the purpose and method of handling and the type of personal information, and shall obtain the individual's separate consent; and (iii) the personal information processor shall regularly conduct compliance and security audits on its processing of personal information in accordance with applicable laws and administrative regulations. Different types of personal information and personal information processing will be subject to various rules on consent, transfer and security. Entities processing personal information bear responsibilities for their activities of processing personal information, and shall adopt necessary measures to safeguard the security of the personal information that they process. Otherwise, the entities processing personal information could be ordered to correct, or suspend or terminate the provision of services, and face confiscation of illegal income or be subject to fines or other penalties. Although the PRC Personal Information Protection Law raises the protection requirements for processing personal information, many specific requirements of this law remain to be clarified by the CAC, other regulatory authorities, and courts in practice. We may be required to make further adjustments to our business practices to comply with the personal information protection laws and regulations.

Furthermore, the PRC government authorities have taken steps to limit the method and manner that the internet companies may apply when using the algorithms. For instance, the CAC, together with eight other government authorities, jointly issued the Guidelines on Strengthening the Comprehensive Regulation of Algorithms for Internet Information Services (《關於加強互聯網信息服務算法綜合治理的指導意見》) on September 17, 2021, which provide that daily monitoring of data use, application scenarios, and effects of algorithms must be carried out by the relevant regulators, and relevant regulators should conduct security assessments of algorithms. The guidelines also provide that an algorithm filing system should be established, and classified security management of algorithms should be promoted. In addition, on December 31, 2021, the CAC, the MIIT, the Ministry of Public Security, and the SAMR promulgated the Administrative Provisions on Internet Information Service Algorithm-Based Recommendation (《互聯網信息服務算法推薦管理規定》), which became effective on March 1, 2022. The Administrative Provisions on Internet Information Service Algorithm-Based Recommendation stipulates that algorithm-based recommendation service providers should inform users of their provision of algorithm-based recommendation services in a conspicuous manner, and publicize the basic principles, purpose intentions, and main operating mechanisms of algorithm-based recommendation services in an

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appropriate manner, and shall provide users with the function of selecting or deleting user tags based on their personal characteristics used for algorithm recommendation services. Regulatory requirements and enforcement regarding the the Administrative Provisions on Internet Information Service Algorithm-Based Recommendation are constantly evolving, and the levels of practice in industrial implementation are not same. We will continue to take necessary measures and will closely monitor the regulatory development and adjust our business operations from time to time to comply with the regulations over algorithm-based recommendation. Further amendment or tightening of the algorithm-based recommendation rules may adversely affect our ability to grow our online content recommendation services business.

On November 14, 2021, the CAC published the Regulations for the Administration of Cyber Data Security (Draft for Comment) (《網絡數據安全管理條例(徵求意見稿)》), (the “Draft Data Security Regulations”). The Draft Data Security Regulations stipulate that data processors shall engage professional data security audit institutions to conduct regular compliance audits of whether their processing of personal information is in compliance with applicable laws and administrative regulations. They also reiterate that a data processor who processes personal information of more than one million individuals must submit the application of cybersecurity review if it intends to be listed in a foreign country, and further stipulate that a data processor shall also apply for the cybersecurity review if its intended listing in Hong Kong affects or may affect national security. Substantial uncertainties exist with respect to its enactment timetable, final content, interpretation and implementation, especially the detailed interpretation of the standard for determining whether a listing in Hong Kong “affects or may affect national security”. We cannot predict the impact of the Draft Data Security Regulations will have, if any, at this stage, and we will closely monitor and follow any development in the promulgation process. It is uncertain when the final measures will be issued and take effect, how they will be enacted, interpreted, or implemented, and whether and how they will affect us. If the enacted version of the Draft Data Security Regulations mandates clearance of cybersecurity review and other specific actions on companies like us, we face uncertainties as to whether such clearance can be timely obtained, or at all. If we are not able to comply with the cybersecurity and data privacy requirements in a timely manner, or at all, we may be subject to government enforcement actions and investigations, fines, penalties, suspension of our non-compliant operations, or removal of our Apps from the relevant application stores, among other penalties, which could materially and adversely affect our business and results of operations. The introduction of new services or other actions that we may take may also subject us to additional laws, regulations, or other government scrutiny. Complying with new laws and regulations could cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business.

On June 27, 2022, the CAC promulgated the Administrative Provisions on the Account Information of Internet Users (《互聯網用戶帳號信息管理規定》), which became effective on August 1, 2022. The obligations of internet-based information service providers include, but not limited to, (i) authenticate the identity information of the users who apply for registration of relevant account and verify the account information submitted by users upon registration; (ii) equip themselves with professional and technical capabilities appropriate to the scale of services; and (iii) internet-based information service providers shall display the home location information of the Internet protocol (IP) addresses of internet users’ accounts within a reasonable scope on the information page of internet users’ accounts so as to facilitate supervision by the public for public interests. In

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addition, many laws and regulations regarding App-specific compliance requirements are issued in recent years. See “Regulatory Overview — Regulations Relating to Cybersecurity, Data Security and Personal Information Protection — App Provisions” in this document.

Regulatory requirements regarding the protection of data are constantly evolving and can be subject to significant changes of interpretations, making the extent of our responsibilities in that regard uncertain. Despite our efforts to comply with applicable laws, regulations and other obligations relating to privacy, data protection and information security, it is possible that our practices or platform could fail to meet all of the requirements imposed on us by such laws, regulations or obligations. Any failure on our part to comply with applicable laws or regulations or any other obligations relating to privacy, data protection or information security, or any compromise of security that results in unauthorized access, collection, transfer, use or release of personally identifiable information or other data, or the perception or allegation that any of the foregoing types of failure or compromise has occurred, could damage our reputation, discourage new and existing users from using our platform or result in investigations, fines, suspension of one or more of our Apps, or other penalties by government authorities and private claims or litigation, any of which could materially adversely affect our business, financial condition and results of operations. In addition, the interpretation and application of the aforementioned laws and regulations are often uncertain and in flux. Our practice may become inconsistent with these laws and regulations.

Our platform and internal systems depend on the ability of software and hardware developed and maintained internally and/or by third parties to store, retrieve, process and manage immense amounts of data, including personal information or other privacy-related matters. The software and hardware on which we rely may now or in the future contain, undetected programming errors, bugs, or vulnerabilities which may result in errors or compromise our ability to protect the data of our users and in turn adversely affect our business, financial condition and operation results. Any systems failure or compromise of security that results in the unauthorized access to or release of the data of our users could significantly limit the adoption of our services, as well as harm our reputation and brand, result in litigation against us, liquidation and other damages, regulatory investigations and penalties, and we could be subject to material liability. Additionally, we connect our platform with software development kit provided by third parties who may also process users’ data. The integrity of our user data also depends on their ability to secure and protect the data they process. The risk that these types of events could seriously harm our business is likely to increase as we expand the scope of services we offer and as we increase the size of our user base.

While we take measures to comply with all applicable data privacy and protection laws and regulations, such as establishing internal policies and responsible team regarding personal data protection, and arranging data security system safeguards and technical protection measures, we cannot guarantee the effectiveness of the measures undertaken by us and our business partners. The activities of third parties, such as our users, customers, content providers, and other business partners are beyond our control. Any failure or perceived failure to comply with all applicable data privacy and protection laws and regulations, or any failure or perceived failure of our business partners to do so, or any failure or perceived failure of our employees to comply with our internal control measures, may result in negative publicity and legal proceedings or regulatory actions against us, and could damage our reputation, discourage current and potential users, customers, content providers and other business partners from using our services or collaborating with us and



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subject us to claims, fines, and damages, which could have a material adverse effect on our business and results of operations. We cannot assure you that we will comply with all applicable data privacy and protection laws and regulations in all respects and regulatory authorities may order us to rectify or terminate our current practice of processing personal information. We may also become subject to fines and/or other penalties which may have material adverse effect on our business, operations and financial condition.

In addition, we may also become subject to laws and regulations affecting data protection, data privacy and/or information security in other jurisdictions by virtue of having users who reside in these jurisdictions, even if we do not have a physical presence there. Many jurisdictions have in the past adopted, and may in the future adopt, new laws and regulations, or amendments to existing laws and regulations, affecting data protection, data privacy and/or information security, such as the General Data Protection Regulation adopted by the European Union that became fully effective on May 25, 2018. The interpretation and application of these laws or regulations are often uncertain and in flux. We cannot assure you that our practice is consistent with these laws and regulations. Moreover, our practice may become inconsistent with these laws and regulations, and if so, we could be subject to fines and orders requiring that we change our practices, which could have an adverse effect on our business and results of operations. Complying with new data laws and regulations could cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business.

**Regulation and censorship of information disseminated over mobile devices and internet in China may subject us to liability or administrative and regulatory actions involving the distributed content posted on our platform.**

The PRC government has enacted laws and regulations governing the publishing industry, internet access and distribution of literary content and other information over the internet. In the past, the PRC government has banned the distribution of content and information over the internet that, among others, violates PRC laws and regulations, are pornographic, obscene or defamatory, or would incite violence, endanger the national security, or contravene national interest. If the PRC regulatory authorities were to take any action to limit or prohibit the distribution of content through our platform, or if they find our content objectionable or otherwise in violation of the applicable PRC laws or regulations, and impose penalties on us or take other administrative actions against us in the future, our business, financial condition, results of operations or reputation could be materially and negatively affected.

We are committed to complying with the applicable laws and regulations regarding the provision of content through the internet. We have made substantial investments in resources to monitor the digital content from content providers. Under our online literature content recommendation business, there are two levels of content monitoring system consisting of automated screening and manual screening to thoroughly monitor the content and advertisements distributed. Under our online games publishing services, we have a team of game specialists to review the overall structure and content of each game we plan to publish. We normally review the profiles of game content providers in terms of legal proceedings and administrative disputes. We also check the App installers of the games to ensure that the collection scope of personal data is legal and reasonable. In addition, we have set up a feedback channel for game users to collect their feedback on the games we publish. Under our digital marketing business, our advertising



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review specialists review the content and form of advertisements in accordance with relevant laws and regulations, and verify for the truthfulness of the content of advertisements. Only the advertisements that pass our review can be published on our platform. In addition to our internal content monitoring, we also require our content providers to confirm that the content they provide to us is in compliance with applicable PRC laws and regulations and does not infringe third parties' legal rights. For details of our content review process, please see "Business – Content Monitoring" in this document. However, although we employ these methods to monitor the content provided by content providers, we cannot ensure that our internal content monitoring efforts will be sufficient to remove all content that may be viewed as indecent or otherwise non-compliant with PRC laws and regulations. Moreover, because the definition and interpretation of the prohibited content are in many cases vague and subjective, it is not always possible to determine or predict what content is prohibited under the existing restrictions or restrictions that may be imposed in the future. Failure to properly identify and prevent illegal or inappropriate content from being displayed on our platform may subject us to severe sanctions and penalties.

### **Advertisements shown on our platform may subject us to penalties and other administrative actions.**

Under the relevant PRC advertising laws and regulations, we are obligated to monitor the advertising content shown on our platform to ensure that such content is true and accurate and in compliance with applicable laws and regulations. In addition, where a special government review is required for specific types of advertisements prior to internet posting, such as advertisements relating to pharmaceuticals, medical instruments, agrochemicals and veterinary pharmaceuticals, we are obligated to confirm that such review has been performed and approval has been obtained. Violations of these laws and regulations may subject us to penalties, including imposition of fines, confiscation of our advertising income, orders to cease dissemination of the advertisements and orders to publish an announcement correcting the misleading information. In circumstances involving serious violations by us, PRC governmental authorities may force us to terminate our advertising operations or revoke our licenses.

We cannot assure you that all the content contained in the advertisements shown on our platform will be in compliance with the relevant advertising laws and regulations at all times, especially given the uncertainty in the interpretation and promulgation of the relevant PRC laws and regulations. Please see "Regulatory Overview – Regulations Relating to Digital Marketing" in this document for further details. If we are found to be in violation of applicable PRC advertising laws and regulations, we may be subject to penalties and our reputation may be harmed, which may have an adverse effect on our business, financial condition, results of operations and prospects.

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**Our failure to obtain, maintain or renew requisite approvals, licenses or permits applicable to our business within the complex regulatory environment, or any required compliance actions that are time-consuming or costly, or any changes in government policies or regulations, may have a material and adverse impact on our business, financial condition and operational results.**

PRC government authorities promulgate and enforce laws and regulations that cover many aspects of telecommunications, internet information services, online games services and internet advertising services, including entry into such industries, scope of permitted business activities, licenses and permits for various business activities and restriction or prohibition of foreign investments into such industries. Operators are required to obtain various government approvals, licenses and permits in connection with their provision of internet information services, internet publication services, online audio-visual products and other related value-added telecommunications services. Part of our current and future business operations are subject to various licenses, permits and approvals. For example, we are required to obtain and maintain ICP Licenses for the provision of internet information services which we are engaged in. For details, please see “Business – Licenses, Certificates and Permits” in this document. Furthermore, PRC government authorities may pass new rules regulating the industries where we are operating in and have been expanding into. We may be required to obtain additional licenses, permits or approvals so that we can continue to operate our existing or future businesses or otherwise prohibit our operation of the types of businesses to which the new requirements apply. New regulations or new interpretations of existing regulations may increase our compliance costs of doing business and prevent us from efficiently delivering solutions and products and expose us to potential penalties and fines.

If any of our Group entities is deemed by the relevant government authorities to be operating without appropriate and sufficient permits and licenses or outside of their authorized scopes of business, fails to maintain or renew the existing permits and licenses in a timely manner, fails to obtain any new permits and licenses required by any future laws or regulations, or otherwise fails to comply with the relevant laws and regulations, we may be subject to penalties and our business and results of operation may be materially and adversely affected.

**Our business is subject to complex and evolving laws, regulations and governmental policies in China. Many of these laws, regulations and governmental policies are subject to change and uncertain interpretation, and any failure or perceived failure by us to comply with these laws and regulations could result in claims, changes to our business practices, increased cost of operations, declines in our growth or engagement, or otherwise harm our business.**

We are subject to a variety of laws and regulations that involve matters important to or that may otherwise impact our business. The introduction of new services, the entry into new industries, expansion of our activities in certain jurisdictions, or other actions to be taken by us may subject us to additional laws, regulations, or other government scrutiny. For example, regulatory or legislative actions affecting the manner in which we display content to our users could adversely impact user growth and engagement, and legislations implementing data protection requirements could increase the cost and complexity of delivering our services. In addition, we are subject to cybersecurity and data privacy laws and regulations in China, including but not limited to, the PRC Cybersecurity Law, the PRC Data Security Law and the PRC Personal Information

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Protection Law. For details, please see “– Privacy and cybersecurity concerns relating to our use of user information, or any actual or perceived failure by us or third parties to comply with applicable data protection laws and regulations or privacy policies, could negatively impact our reputation, subject us to governmental or legal obligations and substantially harm our business” in this section. The interpretation and application of such cybersecurity and data privacy laws and regulations, in particular, the Cybersecurity Review Measures (《網絡安全審查辦法》) and the Draft Data Security Regulations, are still uncertain and evolving. For details, please see “Regulatory Overview – Regulations Relating to Cybersecurity, Data Security and Personal Information Protection” in this document. We cannot assure you that relevant government authorities will not interpret or implement these and other laws or regulations in ways that may negatively affect us.

These laws and regulations are continuously evolving and can be subject to significant change. New laws, regulations and governmental policies may be adopted from time to time by the PRC government to address new issues that arise from time to time, which may require us to obtain new license and permits, or take certain actions that may adversely affect the industry that we operate in and our business operations. Complying with new laws and regulations could cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business. Our failure to timely comply with new laws and regulations in the future could have material and adverse effect on our business, financial condition, results of operations and prospects.

**We may be subject to intellectual property infringement claims or other allegations, which could result in material damage to our reputation and brand, payment of substantial damages, penalties and fines, removal of relevant content from our platform or seeking license arrangements which may not be available on commercially reasonable terms.**

Content distributed on our platform may expose us to allegations by third parties of infringement of intellectual property rights, unfair competition, invasion of privacy, defamation and other violations of third-party rights. We were involved in litigations based on allegations of infringement of third-party copyright due to the content available on our platform during the Track Record Period. Although we currently maintain comprehensive content monitoring and review procedures to monitor the content available on our platform, due to a large amount of content distributed, we may not be able to timely identify all content that may infringe on third-party rights or at all. Accordingly, we may be involved in lawsuits based on allegations of infringement of third-party copyrights from time to time in the ordinary course of our business.

In addition, our exposure to infringement actions may increase when we primarily rely on third-party intellectual property providers to verify the origin and ownership of the intellectual property. We may be subjected to allegations as a result of the misconduct of our third-party content providers. While we require our content providers to provide only legally compliant and inoffensive materials and have set up appropriate screening procedures, nevertheless, they may fail to properly identify and screen all potentially offensive or non-compliant content and, even if properly screened, a third-party may still find the content distributed on our platform to be offensive and take actions against us in connection with their distribution. We may also face litigations or administrative actions for defamation, negligence or other purported injuries resulting from the content we provide or the nature of our services.

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Regardless of the outcome, these potential lawsuits and any other litigation that may be brought against us or our current or former directors and officers could be time-consuming, result in significant expenses and divert our resources and the attention of our management and other key employees from our day-to-day operations and adversely affect our brand and reputation. An unfavorable outcome in any of these matters could result in payment of substantial damages, penalties and fines, removal of the relevant content from our platform or seeking license arrangements which may not be available on commercially reasonable terms. In addition, we may be subject to administrative actions brought by the National Copyright Administration of China or its local branches or related law enforcement departments for alleged copyright infringement.

**Unauthorized use of our intellectual property and the expenses we may incur in protecting our intellectual property rights may harm our business and competitive position.**

We consider our proprietary domain names, copyrights, trademarks, patents, trade secrets and other IP rights to be critical to our business operations. We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Despite our efforts to protect our proprietary rights, third parties may attempt to copy or otherwise obtain or use our intellectual property, including seeking court declarations that they do not infringe upon our intellectual property rights.

Monitoring unauthorized use of intellectual property is difficult and costly, and the steps we or our business partners have taken may not fully prevent the infringement or misappropriation of our intellectual property rights. From time to time we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources and management's attention, and thus may materially and adversely affect our business and results of operations.

**The successful operations of our business and our growth depend upon the stability of internet infrastructure and telecommunications networks in China, our proprietary information technology and those of third-party service providers we rely upon. Any malfunction, capacity constraint or operation interruption for any extended period may have an adverse impact on our business.**

Almost all access to the internet in China is maintained through state-owned telecommunications operators under the administrative control and regulatory supervision of the MIIT. Moreover, we primarily rely on a limited number of telecommunications service providers to provide us with data communications capacity through local telecommunications lines. We have limited access to alternative networks or services in the event of disruptions, failures or other problems with China's internet infrastructure or telecommunications networks provided by telecommunications service providers. Internet traffic in China has experienced significant growth during the past few years. Effective bandwidth and server storage at internet data centers in large cities such as Beijing, Shenzhen and Guangzhou are scarce. With the expansion of our business, we may be required to upgrade our technology and infrastructure to keep up with the increasing traffic on our mobile Apps and webpage. We cannot assure you that the internet infrastructure and telecommunications networks in China will be able to support the demands associated with the continued growth in internet usage. If we were unable to increase our online content and service delivering capacity accordingly, we may not be able to continuously grow our internet traffic and

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the adoption of our products and services may be hindered, which could adversely impact our business and our Share [REDACTED]. In addition, we have no control over the costs of the services provided by telecommunications service providers. If the prices we pay for telecommunications and internet services rise significantly, our results of operations and financial performance may be materially and adversely affected. Furthermore, if internet access fees or other charges to internet users increase, users may be discouraged or prevented from accessing the internet and thus cause the growth of internet users to decelerate. Such deceleration may adversely affect our ability to continue to expand our user base, which in turn could adversely affect the operation of our business and our growth.

In addition, we rely on the continuous and reliable operation of our proprietary information technology and communications infrastructure or those of third-party service providers to provide superior user experience on our platform. We cannot assure you that we will be able to procure sufficient bandwidth in a timely manner or on acceptable terms or at all. Failure to do so may significantly impair user experience on our platform and decrease the overall effectiveness of our platform to users, content providers and advertising customers. Our proprietary information technology and communications infrastructure or those of third-party service providers are vulnerable to damage or interruption as a result of fires, floods, earthquakes, power losses, telecommunications failures, undetected errors in software, computer viruses, hacking and other attempts to harm our proprietary information technology and communications infrastructure or those of third-party service providers. Disruptions, failures, unscheduled service interruptions or a decrease in connection speeds could damage our reputation and cause our users, content providers and advertising customers to migrate to our competitors' platforms. If we experience frequent or persistent service disruptions, whether caused by failures of our proprietary information technology and communications infrastructure or those of third-party service providers, our user experience may be negatively affected, which in turn, may have a material and adverse effect on our reputation and business. We cannot assure you that we will be successful in minimizing the frequency or duration of service interruptions. As the number of our users and content providers increases and the content available on our platform will increase accordingly, we may be required to expand and adapt our technology and infrastructure to reliably store and process content. It may become increasingly difficult to maintain and improve the performance of our platform in a timely and reliable manner, especially during peak usage times, as our services become more complex and our user traffic increases. Any failure to do so could materially and adversely affect our business and reputation.

**The proper functioning of our mobile Apps and webpage is essential to our operations and any failure to maintain the satisfactory performance, will materially and adversely affect our business, reputation, financial condition and results of operations.**

Our ability to provide users and customers with a superior user/customer experience depends on the continuous and reliable operation of our systems and proper functioning of our mobile Apps and webpage. Failure to do so may significantly impair user experience on our mobile Apps and webpage and decrease the overall effectiveness of our platform to our users. Disruptions, failures or unscheduled service interruptions could hurt our reputation and cause our users to switch to our competitors' platforms. Our systems are vulnerable to damage or interruption as a result of fires, floods, earthquakes, power losses, telecommunications failures, undetected errors in software, computer viruses, hacking and other attempts to harm our systems. In addition, we rely on servers,

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cloud services and other network facilities provided by third parties, and the limited availability of service providers with sufficient capacity to house additional network facilities and broadband capacity in China may lead to higher costs or limit our ability to offer certain services or expand our business. If we experience frequent or persistent service disruptions, whether caused by failures of our own systems or those of service providers, our users' experience may be negatively affected, which in turn, may have a material and adverse effect on our reputation. We cannot assure you that we will be successful in minimizing the frequency or duration of service interruptions.

**Any cybersecurity incidents, including data security breaches or viruses could materially and adversely affect our business, results of operations and reputation.**

Our products and services involve the storage and transmission of users' and customers' information, and security breaches or vulnerabilities affecting our or our vendors' technologies, products and systems could expose us to a risk of loss of this information, litigation and potential liability. Historically, we have experienced cyber-attacks of varying degrees from time to time, and we have been able to rectify damages caused by such cyber-attacks without significant impact to our operations in the past. Our security measures may also be breached due to employee error, malfeasance or otherwise. Additionally, outside parties may attempt to fraudulently induce employees, or users to disclose sensitive information in order to gain access to our data or our users' data or accounts, or may otherwise obtain access to such data or accounts. Because the techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed, we could lose users and customers, and may be exposed to significant legal and financial risks, including legal claims and regulatory fines and penalties. Any of these actions could have a material and adverse effect on our business, results of operations and reputation.

**If we fail to successfully adapt our mobile Apps and webpage to user requirements, emerging industry standards or technologies, our business, prospects and financial results may be materially and adversely affected.**

In recent years, mobile devices, such as mobile phones, tablets, wearable devices and other internet-enabled mobile devices, have been increasingly used in China and have surpassed personal computers as the primary means to access the internet in the key Chinese markets in which we operate, and we expect this trend to continue when 5G and more advanced mobile communications technologies are broadly implemented. As we make our services available across a variety of mobile operating systems and devices, including Easou Reading App Series on iOS and Android, we are dependent on the interoperability of our services with popular mobile devices and mobile operating systems that we do not control, such as iOS and Android. Any changes in such mobile operating systems or devices that degrade the functionality of our services, such as being incompatible with our solutions and services, preventing customers from accessing our merchants' storefronts, or give preferential treatment to competitive services could adversely affect the usage of our services and may have a material and adverse impact on our business and prospects.



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Further, if the number of platforms for which we develop our services increases, which is typically seen in a dynamic and fragmented mobile services market such as China, it will result in an increase in our Group's costs and expenses. In order to deliver high-quality services, it is important that our services work well across a range of mobile operating systems, networks, mobile devices and standards that are beyond our control. For our business to be successful, we will need to design, develop, promote and operate new services that will be compatible and popular with such devices. We may encounter difficulties with the installation of such new products for those mobile devices, and such products may not function smoothly or properly. As new devices are released or upgraded, we may encounter problems in developing and upgrading our products/services for use on mobile devices and we may need to devote significant resources to the creation, support and maintenance of such products/services for mobile devices. Despite these efforts, we may not be successful in doing so, and our business, prospects and results of operations may be materially and adversely affected.

**Our businesses depend heavily on the market recognition of our brand, and any harm to our brand or failure on our part to maintain and enhance our brand recognition may materially and adversely affect our business, results operations and financial condition.**

We rely on our strong brands, principally Easou Reading App Series to attract and retain users. Maintaining and enhancing our brands depends largely on our ability to continue to provide precise literary content recommendation services, online games publishing services and digital marketing services which may not always be successful. Maintaining and enhancing our brands also depends largely on our ability to remain a leader in China's online literature recommendation industry, which could be difficult and costly. If we do not successfully maintain our strong brand recognition or reputation, our business prospects could be harmed.

Our brands may be impaired by a number of factors, including, but not limited to, any failure to keep pace with the technological advances, slower loading times for our services, a decline in the quality or breadth of our literary content offerings available on our platform, any failure to protect our intellectual property rights, alleged violations by us or our third-party content providers of the applicable law and regulations, negative claims or publicity, or our inability to address user complaints. Any difficulty or failure to maintain and enhance our brand and corporate reputation could have an adverse effect on our business, results of operations and financial condition.

**Our business, prospects and financial performance may be subject to the new terms agreed upon in the business contracts we negotiate in the future with third-party original content providers, distribution platforms or operators as well as our relationship with them.**

We generally enter into cooperation agreements with various third parties during the course of our operations, including content providers, advertising customers, telecommunications operators, payment service providers and others. However, there can be no assurance that our agreements with those third parties will be extended or renewed after their respective expiration or that we will be able to extend or renew such agreements on terms and conditions favorable to us. In addition, if any of these third parties breaches its obligations under any of these agreements or refuses to extend or renew such agreements when they expire, we may not operate effectively or

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need to find an alternative third party in a timely manner. We may have legal or other disputes with the third-party distribution platforms that may affect our relationship with such platforms or have an adverse effect on our business.

**We utilize third-party payment collection channels to collect proceeds from our paying users' purchases. Any failure by those payment collection channels to process payments effectively and securely may materially and adversely affect our revenue realization and brand recognition.**

We depend on the billing and payment systems of third parties, such as online third-party payment processors, to maintain accurate and complete payment records of the sales proceeds by the paying users and collect such payments. We receive periodic statements from these third parties which indicate the aggregate amount of fees that were charged to the paying users of our services. Our business and results of operations could be adversely affected if these third parties fail to accurately account for, or calculate the revenue generated from, the sales of our services. If there are security breaches or failures or errors in the payment process of these third parties, user experience may be adversely affected and our business and results of operations may be negatively impacted.

Failure to timely collect our receivables from third parties whose billing and payment systems we use and third-party payment processors may adversely affect our cash flows. Our third-party payment processors may from time to time experience cash flow difficulties. Consequently, they may delay their payments to us or fail to pay us at all. Any delay in payment or inability of current or potential third-party payment processors to pay us may significantly harm our cash flows and results of operations.

In addition, we do not have control over the security measures of our third-party payment service providers, and security breaches of the online payment systems that we use could expose us to litigation and possible liability for failing to secure confidential customer information. If a well-publicized internet security breach were to occur, users/customers concerned about the security of their online payments may become reluctant to purchase our products through payment service providers even if the publicized breach did not involve payment systems or methods used by us. Further, billing software errors could damage user/customer confidence in these payment systems. If any of the above were to occur, our reputation and the perceived security of the payment systems we use could be damaged, and we may lose paying users as they may be discouraged from purchasing products or services on our platform, which in turn may have a material and adverse effect on our business, financial condition and results of operations.

Furthermore, our payment channels are subject to various laws and regulations governing the transfers of electronic funds and virtual currencies, which could change or be reinterpreted in a way that will adversely affect their compliance. Any non-compliance incidents or breaches may subject our third-party payment processors to fines, higher transaction fees or even the interruption of their businesses, which in turn would materially and adversely affect our ability to monetize our services and our business prospects.

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**If we are unable to collect trade receivables from our customers, our results of operations and cash flows could be adversely affected.**

Our business depends on our ability to successfully and timely obtain payments from our customers of the amounts they owe us for the services we provide. As of December 31, 2020 and 2021 and September 30, 2022, our trade receivable balance amounted to approximately RMB59.5 million, RMB86.3 million and RMB117.5 million, respectively. The growth in trade receivables during the Track Record Period reflected, in part, our growth in sales. In particular, under our digital marketing services, we enter into advertising contracts with our advertising customers, and the financial soundness of these customers may affect our ability to collect outstanding trade receivables. We generally make a credit assessment of the advertising customers to evaluate the collectability of the advertising service fees before entering into advertising contracts. However, we cannot assure you that we are or will be able to accurately assess the creditworthiness of each advertising customers and its inability to pay us the full amounts due and in a timely manner. If we are unable to timely collect our trade receivable on a timely and consistent basis, our cash flows and access to operating capital could be adversely affected.

**Fluctuation of our financial asset at fair value through profit and loss ("FVTPL") may materially affect our financial condition and results of operations.**

Our financial asset at FVTPL mainly consists of a fund investment, which is considered a short-term investment. As of September 30, 2022, we recorded RMB82.5 million of financial asset at FVTPL. The fair value of such fund investment at FVTPL has been stated with reference to the adjusted net asset value provided by the relevant administrator of the fund investment. The fair value measurement is positively correlated to the net asset value of the underlying fund. Changes in fair value are reflected in our profit or loss.

Any change in securities prices and market conditions could lead to volatility in the fair values of our short-term investments accounted for at fair value, which could impact our financial condition and results of operations and may also impact our ability to dispose of these investments at favorable prices.

**We may incur impairment charges for our intangible assets/goodwill.**

As of December 31, 2020 and 2021 and September 30, 2022, our goodwill remained stable at RMB32.3 million. As of the same dates, we had other intangible assets of RMB27.5 million, RMB35.5 million and RMB32.2 million, respectively. Due to the frequent changes and development in technology, the assumptions we used in estimating the cash flow generated from our intangible assets may change, and the estimated useful life of our intangible assets might also be subject to significant uncertainty. If any significant changes were to occur, we may incur impairment charges for our intangible assets, and if any significant impairment charges were made, our results of operations may be negatively affected.

In addition, our equity investments and acquired businesses may not generate the financial results we expect. They could result in the occurrence of significant investments and goodwill impairment charges, as well as amortization expenses for other intangible assets. We periodically review goodwill and investments for impairment. If we conclude that any of these equity

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investments and acquired businesses are impaired, we will write down the asset to its recoverable amount and take a corresponding charge to our profit or loss. As a result, our results of operations may be negatively affected.

**We may adopt a share option scheme in the future, which could materially and adversely affect our results of operations and dilute your interest in our Company.**

Although we did not incur any share-based compensation during the Track Record Period, we may grant employee share options and other share-based compensation from time to time in the future to our Directors, senior management and employees to recognize their contribution to our Group and to attract and retain key personnel. The fair value of the services received in exchange for the grant of these share options and employee share options will be recognized as share-based compensation expenses over the vesting period, which will have a material adverse effect on our profits. Moreover, exercise of the share options we may grant will increase the number of our Shares in circulation and dilute the interest of our existing shareholders. Any actual or perceived sales of additional Shares acquired upon the exercise of the share options we may grant may materially and adversely affect the [REDACTED] of our Shares.

**We might not be able to realize the revenue from contract liabilities, which may have impact on our cash flows or liquidity position.**

We recognize a contract liability when a customer/user pays us non-refundable consideration before we recognize the relevant revenue. Contract liabilities are reclassified as revenue when we fulfill our obligations under a contract through when we transfer control of the related goods or services to the customer. Our aggregate contract liabilities decreased from RMB37.5 million as of December 31, 2020 to RMB23.7 million as of December 31, 2021, and further to RMB20.4 million as of September 30, 2022. See “Financial Information – Description of Certain Key Items from Our Combined Statements of Financial Position” in this document for further details. If we fail to fulfill our obligations in respect of our contract liabilities or if our users/customers dispute the services we provide, we may not be able to reclassify the full amount of contract liabilities as revenue, and we will have to refund all or a portion of the payments made by our user/customers, which will in turn adversely affect our results of operations, liquidity and financial position.

**Our success depends on the efforts of our key employees, including our senior management members and other technical personnel. If we fail to hire, retain or motivate our key employees, our business may suffer.**

Our business depends on the continued contributions of our senior management and other key employees, including our technical personnel, many of whom are difficult to be replaced. We benefit from the leadership of a strong management team with proven vision, rich professional work experience and extensive knowledge of developing intelligent recommendation engine and operating internet platforms. In addition, our future success depends on our ability to attract a significant number of qualified employees and retain existing key employees. Our need to continue to attract and retain skilled and experienced staff may cause us to materially increase compensation-related costs.

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If one or more of our key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all. Competition for qualified talent in China is intense, particularly in the internet-related industries. We may incur additional expenses to recruit and train new personnel and there can be no assurance that we will be able to attract or retain qualified employees. As a result, our business could be severely disrupted, and our business, financial condition and results of operations could be materially and adversely affected. In addition, if any of our executive officers or key employees joins a competitor or forms a competing company, we may lose know-how, trade secrets, suppliers and customers. All of our executive officers and key technical personnel have entered into employment agreements with us, which contains customary non-compete provisions. Although non-compete provisions are generally enforceable under the PRC laws, PRC legal practice regarding the enforceability of such provisions is not as well-developed as in countries such as the United States. Thus, if we need to enforce our rights under the non-compete provisions, we cannot assure you that a PRC court would enforce such provisions.

**Our Single Largest Shareholders have substantial influence over our Company and their interests may not align with the interests of our other Shareholders.**

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

**We may need additional capital to fund our operations and business expansion, and we may not be able to obtain such capital in a timely manner or on terms acceptable to us, or at all. Moreover, our future capital needs may require us to sell additional equity or debt securities that may dilute the interest of our shareholders or introduce covenants that may restrict our operations or ability to distribute dividends.**

We may need additional capital to fund our operations and business expansion. For details, please see "Future Plans and Use of [REDACTED]" in this document. Our future capital requirements are uncertain and actual capital requirements may be different from those we currently anticipate. There can be no assurance that we will generate sufficient cash flows from our operating activities for our intended future plans. Therefore, we may need to seek equity or debt financing to finance a portion of our capital expenditures. Our ability to obtain additional capital is subject to a variety of uncertainties, including:

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- our market position and competitiveness in the online literature industry, digital marketing industry and online games industry in China;
- our future profitability, overall financial condition, results of operations and cash flow;
- general market conditions for capital raising activities by companies with intelligent recommendation engines and other internet companies in China;
- investor acceptance of our business model; and
- economic, political and other conditions in China and globally.

As a result, there can be no assurance that we will be able to obtain adequate financing in a timely manner or on acceptable terms, or at all. If we cannot obtain sufficient additional capital, our ability to continue to pursue our business objectives, and our business, results of operations, financial condition and prospects could be materially and adversely affected.

In addition, our future capital needs and other business reasons could require us to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity or equity-linked securities could dilute our Shareholders. The incurrence of indebtedness would result in 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.

**We maintain limited insurance coverage which could expose us to significant costs and business disruptions.**

The insurance industry in China is still in an early stage of development, and insurance companies in China currently offer limited business-related insurance products. We do not maintain business interruption insurance or general third-party liability insurance, nor do we maintain property insurance, product liability insurance or key-man insurance. Although we consider our practice to be reasonable in light of the nature of our business and the insurance products that are available in China and in line with the practices of other companies in the same industry of similar size in China, there is no assurance that our insurance coverage will be sufficient to compensate us for losses and we will be able to successfully claim our losses under our current insurance policy at all times. Any uninsured risks may result in substantial costs and diversion of resources, which could adversely affect our results of operations and financial condition.

**Many of our products and services contain open-source software, which may pose particular risks to our proprietary software, products and services in a manner that negatively affects our business.**

We use open-source software in our services and will continue to use open-source software in the future. We strictly comply with the license requirement of each open-source software. However, There is a risk that open-source software may have security vulnerabilities and open-source software licenses may be subject to further changes in the future, which are beyond



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our control, or which we may not be able to anticipate. It may also interfere with the deployment or impair the functionality of our platform, delay the introductions of new solutions, and harm our reputation and business prospects.

**We may face administrative penalties or challenges from third parties arising from the defects of certain properties occupied by us.**

As of the Latest Practicable Date, we leased 14 properties with a total GFA of approximately 2,476.44 sq.m. from Independent Third Parties, of which, two properties with a total GFA of approximately 38.0 sq.m. did not conduct the lease registration and filing (租賃登記備案) in China. As advised by our PRC Legal Advisers, failure to register a lease agreement with the relevant Chinese government authorities does not affect the validity and enforceability of such agreement, but the relevant Chinese government authorities may order us or the lessor to, within a prescribed time limit, register the lease agreement. Failure to do so within the time limit may subject us to a maximum fine of not more than RMB10,000 for each non-registered lease. For details, please see "Business – Properties" in this document.

In addition, certain lessors of our leased properties have not provided us with valid property ownership certificates or any other documentation proving their right to lease those properties to us. If our lessors are not the owners of the properties or they have not obtained consents from the owners or their lessors or permits from the relevant government authorities, our leases could be invalidated.

As of the date of this document, we were not aware of any actions, claims or investigations threatened against us or our lessors with respect to the defects in our leasehold interests. However, if any of our leases is terminated as a result of the challenges made by third parties or government authorities for the lack of title certificates or proof of authorization to lease, we do not expect to be subject to any fines or penalties, but we may be forced to relocate the affected offices and incur additional expenses relating to such relocation.

**We rely on certain key operating metrics to evaluate the performance of our business, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.**

We rely on certain key operating metrics, such as the number of registered users, MAU, MPU and ARPPU with respect to our online literature recommendation services; the number of clicks per year, number of displays per year and annual click-through rate with respect to our digital market services to evaluate the performance of our business; and the number of new registered users, ARPPU and DAU with respect to our online games publishing services. Our operating metrics may differ from estimates published by third parties or from similarly titled metrics used by other companies due to differences in methodology and assumptions. We calculate these operating metrics using internal company data that have not been independently verified. If we discover material inaccuracies in the operating metrics we use, or if they are perceived to be inaccurate, our reputation may be harmed and our evaluation methods and results may be impaired, which could negatively affect our business. If [REDACTED] make [REDACTED] decisions based on operating metrics we disclose that are inaccurate, we may also face potential lawsuits or disputes.

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**Any future litigation, legal disputes, claims or administrative proceedings against us could be costly and time-consuming to defend.**

We may from time to time, become subject, to legal proceedings and claims that arise in the ordinary course of business or pursuant to governmental or regulatory enforcement activity. While we do not believe that the resolution of any lawsuits against us will, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations, litigations to which we subsequently become a party may result in substantial costs and divert management's attention and resources. Furthermore, any litigations, legal disputes, claims or administrative proceedings which are initially not of material importance may escalate and become important to us due to a variety of factors, such as the facts and circumstances of the cases, the likelihood of loss, the monetary amount at stake and the parties involved.

Our insurance may not be sufficient to cover claims brought against us, may not provide sufficient payments to cover all of the costs to resolve one or more such claims and may not continue to be available on terms acceptable to us. In particular, any claim could result in unanticipated liability to us if the claim is outside the scope of the indemnification arrangement we have with our users or customers, our users or customers do not abide by the indemnification arrangement as required, or the liability exceeds the amount of any applicable indemnification limits or available insurance coverage. A claim brought against us that is uninsured or underinsured could result in unanticipated costs and could have a material adverse effect on our financial condition, results of operations or reputation.

**Our performance during the Track Record Period may not be indicative of our future prospects.**

Our financial condition and results of operations may fluctuate due to a number of factors, many of which are beyond our control, including: (i) our ability to retain and increase the number of our users/customers; (ii) our ability to maintain and develop our relationship with third-party content providers; (iii) our success in capturing the opportunities in the industry in which we operate; (iv) our ability to maintain and advance our technological capability; and (v) our future business expansion.

In addition, we may not be able to maintain our historical growth in future periods, and we may not be able to sustain profitability on an interim or annual basis in the future. Our historical results, growth rates and profitability may not be indicative of our future performance. Our Shares could be subject to significant [REDACTED] volatility should our earnings fail to meet the expectations of the [REDACTED] community. Any of these events could cause the [REDACTED] of our Shares to materially decrease and in turn, further harm our business and financial conditions.

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

Our business could be adversely affected by natural disasters or outbreaks of epidemics. These natural disasters, outbreaks of contagious diseases, and other adverse public health developments in China or any other market in which we operate and conduct business could

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severely disrupt our business operations by damaging our network infrastructure or information technology system or affecting the productivity of our workforce. The outbreak of any severe epidemic disease, such as severe acute respiratory syndrome, or SARS, Ebola virus, the H1N1 influenza or other subtypes of avian flu, including H5N1 and most recently H7N9, may disrupt our operations, which could negatively affect our financial condition and business prospects. For instance, China experienced an outbreak of SARS in 2003 and several occurrences of avian flu in various regions since 2004. There was also an outbreak of Ebola virus, the Middle East Respiratory Syndrome and Zika virus, as well as the recent outbreak of the COVID-19 pandemic, which has not yet been fully contained as of the Latest Practicable Date.

Our headquarters are located in Shenzhen, Guangdong Province, and maintain key business offices in Beijing. Most of our directors and management and a large majority of our employees currently reside in these cities. Consequently, we are highly susceptible to factors adversely affecting Shenzhen and Beijing. If any of the abovementioned natural disasters, health epidemics or other outbreaks were to occur in Shenzhen and Beijing, our operation may experience material disruptions, such as temporary closure of our offices and suspension of services, which may materially and adversely affect our business, financial condition and results of operations.

The COVID-19 outbreak may continue to impose interruptions on China's macroeconomy and adversely impact our results of operations. The COVID-19 outbreak has caused, and may continue to cause, companies in China and around the world to implement adjustment of work schemes, impose additional quarantine measures or even temporary or permanent business closure. We have taken a series of measures in response to the outbreak, including, among others, remote working arrangements for some of our employees. These measures could reduce the capacity and efficiency of our operations, which in turn could negatively affect our results of operations. The COVID-19 also brought uncertainty to the industries in which we operate. Due to the COVID-19 pandemic and the quarantine policies of the PRC government, people have spent more time on online entertainment and in-door activities, such as online reading and online games, which have driven the growth of the online literature industry and online games industry in China. In addition, our digital marketing services were partially impacted due to the reduced demand from our advertising customers who faced suppressed consumer desire of the end users during the lock down. Consequently, we experienced a slowdown in the revenue growth in our free reading recommendation with advertising services and digital marketing services.

Since various measures that the Chinese government implemented to constrain the COVID-19 outbreak have been relaxed as of the Latest Practicable Date, many aspects of daily business operations in China gradually returned to a normal routine. However, the situation in China and other countries and regions is still evolving, bringing with it unprecedented levels of macroeconomic disruption and uncertainties across the globe. The extent to which COVID-19 impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including the duration and severity of the pandemic, the actions taken to contain the virus or treat its impact, the development and efficiency of vaccines and other actions taken by governments, companies and individuals in response to the virus and resulting economic disruption.

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We are also vulnerable to natural disasters and other calamities. If any such disaster were to occur in the future affecting Shenzhen, Beijing, Guangzhou or any other cities where we have major operations in China, our operations could be materially and adversely affected due to loss of personnel and damages to property, including our technology systems. Our operation could also be severely disrupted if our suppliers, customers or business partners were affected by such natural disasters or health epidemics.

**A severe or prolonged downturn in the Chinese or global economy, any financial or economic crisis, or perceived threat of such a crisis, could materially and adversely affect our business and financial condition.**

COVID-19 has had a severe and negative impact on the Chinese and the global economy since the first quarter of 2020. Whether this will lead to a prolonged downturn in the economy remains to be seen. Even before the COVID-19 pandemic, the global macroeconomic environment was facing numerous challenges. The growth rate of the Chinese economy had already been slowing since 2010. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies which had been adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China, even before 2020. The ongoing Russo-Ukrainian War, the unrest, terrorist threats and the potential for war in the Middle East and elsewhere, as well as geopolitical uncertainty and international tension may increase market volatility across the globe. There have also been concerns about the relationship between China and other countries, including the surrounding Asian countries, which may potentially have economic effects. In particular, there is significant uncertainty about the future relationship between the United States and China with respect to trade policies, treaties, government regulations and tariffs. Economic conditions in China are sensitive to global economic conditions, as well as the changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations and financial condition.

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

We are subject to anti-corruption, anti-bribery and other relevant laws and regulations in China and certain overseas jurisdictions. We have direct or indirect interactions with the officials and employees of the PRC government agencies and state-owned affiliated entities in the ordinary course of business. These interactions subject us to an increased level of compliance-related concerns. Although we perform compliance processes and maintain internal control systems, we may be subject to investigations and proceedings by governmental authorities for alleged infringements of these laws and regulations if our processes or systems are not conducted or are not operating properly. These proceedings may result in fines or other liabilities and could have a material and adverse effect on our reputation, business, financial condition, results of operations and prospects. If any of our subsidiaries, operating entities, employees or other persons engaged in fraudulent, corrupt or other unfair business practices or otherwise violate applicable laws, regulations or internal controls, we could become subject to one or more enforcement actions or

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otherwise be found to be in violation of such laws and regulations, which may result in penalties, fines and sanctions and in turn adversely affect our reputation, business, financial condition, results of operations and prospects.

### RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

**If the PRC government finds that the Contractual Arrangements that establish the structure for operating our businesses in China do not comply with applicable PRC laws and regulations on foreign investment in internet and other related businesses, or if these laws and regulations or their interpretation change in the future, we could be subject to severe consequences, including penalties, nullification of the Contractual Arrangement or to be forced to relinquish our interests in those operation.**

Current PRC laws and regulations impose certain restrictions and prohibitions on foreign ownership of companies that provide internet culture business, internet publication business, value-added telecommunication and other related businesses, unless certain exceptions are available.

We are a company incorporated under the laws of the Cayman Islands, and Easou Holdings (Hainan) Co., Ltd. (宜搜控股(海南)有限公司) (the “WFOE”), our PRC subsidiary, is considered as a foreign-invested enterprise. To comply with PRC laws and regulations, we conduct substantially all of our business in China mainly through the Consolidated Affiliated Entities based on the Contractual Arrangements, which enable us to (i) be the exclusive provider of business support, management and consultation services in exchange for a fee; (ii) receive all of the economic benefits after offsetting the prior-year loss (if any), offsetting operating costs, expenses, taxes and other statutory contributions in any financial year; (iii) have an irrevocable and exclusive right to purchase, or to designate one or more persons to purchase, from the Registered Shareholders of Easou Shenzhen all or any part of their equity interests in Easou Shenzhen at any time and from time to time in our absolute discretion to the extent permitted by PRC laws; (iv) have an irrevocable and exclusive right to purchase, or to designate one or more persons to purchase from Easou Shenzhen all or any part of its assets at any time and from time to time in our absolute discretion to the extent permitted by PRC laws; (v) appoint us, any directors authorized by us or his/her successors, or a liquidator replacing the director as our exclusive agent and attorney to act on our behalf to exercise the voting and all other rights as a registered shareholder of Easou Shenzhen in connection with their equity interests in accordance with PRC laws and the articles of Easou Shenzhen; and (vi) pledge as first charge all of the equity interests in Easou Shenzhen to us as collateral security for any and all of the guaranteed debt under the Contractual Arrangements and to secure performance of the obligations under the Contractual Arrangements. Our Consolidated Affiliated Entities hold the licenses, approvals and key assets that are essential for our business operations. The Contractual Arrangements allow the results of operations and assets and liabilities of Easou Shenzhen and its subsidiaries to be consolidated into our results of operations and assets and liabilities as if they were wholly owned subsidiaries of our Group. See “Contractual Arrangements” in this document for more details.

Our PRC Legal Advisers are of the opinion that (i) the Contractual Arrangements would not fall within the circumstances as stipulated in the PRC Civil Code, which will render the arrangements to be an invalid act thereunder; (ii) each of the agreements comprising the

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Contractual Arrangement do not violate the provisions of the articles of associations of the WFOE and Easou Shenzhen, respectively; (iii) except for certain clauses regarding the remedies that may be awarded by the arbitration tribunal and the power of courts of competent jurisdictions to grant interim remedies in support of the arbitration and liquidation arrangements concerning our Consolidated Affiliated Entities, and clauses on the formation of liquidation committee in the event of winding-up for Easou Shenzhen, each of the agreements comprising the Contractual Arrangements, are valid, legally binding and enforceable under the PRC laws and regulations; and (iv) the execution and performance of the Contractual Arrangements does not fall within the circumstances under which a contract may become null and void pursuant to the PRC Civil Code ( 中華人民共和國民法典). However, there can be no assurance that the PRC government authorities will take a view in the future that is not contrary to or otherwise different from the opinion of our PRC Legal Adviser stated above, and there is also the possibility that the PRC government authorities may adopt new laws and regulations in the future which may invalidate the Contractual Arrangements.

If the PRC government determines that our Contractual Arrangements do not comply with its restrictions on foreign investment, or if the PRC government otherwise finds that we, the Consolidated Affiliated Entities or any of its subsidiaries are in violation of PRC laws or regulations or lack the necessary permits or licenses to operate our business, the relevant PRC regulatory authorities, including but not limited to the MOFCOM, the MIIT and the NPPA, would have broad discretion in dealing with such violations or failures, including, but not limited to:

- requiring the nullification of the Contractual Arrangements;
- revoking our business and operating licenses of relevant entities;
- discontinuing or restricting any related-party transactions between our Company and our affiliated entities;
- imposing fines, confiscating any of the income from the Consolidated Affiliated Entities that they deem to have been obtained through illegal operations;
- imposing conditions or requirements with which we or our Consolidated Affiliated Entities may not be able to comply;
- requiring us or our Consolidated Affiliated Entities to restructure the relevant ownership structure or operations; or to re-apply for the necessary licenses, or to relocate our businesses, staff and assets;
- restricting or prohibiting our use of the [REDACTED] from the [REDACTED] or our other financing activities to finance the business and operations of our Consolidated Affiliated Entities; or
- taking other regulatory or enforcement actions that could be harmful to our business.



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Any of these actions could cause significant disruption to our business operations, and may materially and adversely affect our business, financial condition and results of operations. In addition, it is unclear what impact the PRC government actions would have on us and on our ability to consolidate the financial results of the Consolidated Affiliated Entities and its subsidiaries in our consolidated financial statements, if the PRC governmental authorities find our legal structure and Contractual Arrangements to be in violation of PRC laws, rules and regulations. If any of these penalties result in our inability to direct the activities of the Consolidated Affiliated Entities that most significantly impact their economic performance and/or our failure to receive the economic benefits from the Consolidated Affiliated Entities, we may not be able to consolidate the Consolidated Affiliated Entities into our consolidated financial statements in accordance with the HKFRS.

**We rely on the Contractual Arrangements with our Consolidated Affiliated Entities for our operations in China, which may not be as effective in providing operational control as direct ownership, and our Consolidated Affiliated Entities may fail to perform their obligations under our Contractual Arrangements, resulting in litigation that may be time-consuming, costly, and unpredictable and adversely impact our operations and results.**

Due to the PRC restrictions or prohibitions on foreign ownership of the value-added telecommunications services, internet cultural business and online publishing activities in China, we operate our businesses in the PRC through our Consolidated Affiliated Entities, in which we have no ownership interest. We rely on the Contractual Arrangements with the Consolidated Affiliated Entities and the Registered Shareholders of Easou Shenzhen, including the powers of attorney, to control and operate their businesses. The Contractual Arrangements are intended to provide us with effective control over our Consolidated Affiliated Entities and allow us to obtain economic benefits from them. Please see "Contractual Arrangements" in this document for more details. In particular, our ability to control the Consolidated Affiliated Entities depends on the powers of attorney, pursuant to which the WFOE can vote on all matters requiring shareholder approval in the VIE. We believe these powers of attorney are legally enforceable but may not be as effective as direct equity ownership.

Although we have been advised by our PRC Legal Advisers that except as disclosed in this document, each of the contracts among the WFOE, Easou Shenzhen and the Registered Shareholders of Easou Shenzhen is valid and binding on the parties of the contracts under existing PRC laws and regulations, the Contractual Arrangements may not be as effective in providing us with control over the Consolidated Affiliated Entities as direct ownership. If the Consolidated Affiliated Entities or its shareholders fail to perform their respective obligations under the Contractual Arrangements, we may incur substantial costs and expend substantial resources to enforce our rights. All of the Contractual Arrangements are governed by and interpreted in accordance with PRC laws and disputes arising from the Contractual Arrangements will be resolved through arbitration in China. However, there are very few precedents and little official guidance as to how contractual arrangements in the context of a variable interest entity should be interpreted or enforced under PRC laws. There remain significant uncertainties regarding the ultimate outcome of arbitration should legal action become necessary. Such uncertainties could limit our ability to enforce the Contractual Arrangements. In addition, arbitration awards are final and can only be enforced in PRC courts through arbitration award recognition proceedings, which could cause additional expenses and delays. In the event we are unable to enforce the Contractual

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Arrangements or we experience significant delays or other obstacles in the process of enforcing the Contractual Arrangements, we may not be able to exert effective control over our Consolidated Affiliated Entities and may lose control over the assets owned by our Consolidated Affiliated Entities. As a result, we may be unable to consolidate our Consolidated Affiliated Entities in our consolidated financial statements, and our ability to conduct our business may be materially and adversely affected.

**Certain terms of the Contractual Arrangements through which we conduct our business operations in the PRC may not be enforceable under the PRC laws.**

Our Contractual Arrangements provide for the resolution of disputes through arbitration in accordance with the then effective arbitration rules of Shenzhen Court of International Arbitration. Our Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the equity interest and property interest and other assets of the WFOE, injunctive relief and/or order the winding up of the WFOE or our Consolidated Affiliated Entities. In addition, our Contractual Arrangements contain provisions to the effect that courts in Hong Kong and the Cayman Islands are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, under PRC laws, the abovementioned provisions may not be enforceable. Under PRC laws, a tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of the WFOE or our Consolidated Affiliated Entities and in addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and Cayman Islands may not be recognizable or enforceable in the PRC. Therefore, such remedies may not be available to us, notwithstanding the relevant contractual provisions contained in our Contractual Arrangements. PRC laws allow an arbitral body to award the transfer of assets of or an equity interest in China in favor of an aggrieved party. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, the court may or may not support the award of an arbitral body when deciding whether to take enforcement measures.

**Substantial uncertainties exist with respect to the interpretation and implementation of the PRC Foreign Investment Law, its implementation regulations and how they may impact the viability of our current corporate structure, business, financial condition and results of operations.**

The “variable interest entity” structure, or the VIE structure has been adopted by many China-based companies, including us, to obtain licenses and permits necessary to operate in industries that currently are subject to restrictions on or prohibitions for foreign investment in China. The National People’s Congress promulgated the Foreign Investment Law (《中華人民共和國外商投資法》), or the 2019 PRC Foreign Investment Law, in March 2019, effective from January 1, 2020, and the State Council promulgated the Implementing Rules of the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》), or the Implementation Rules, in December 2019, effective from January 1, 2020, which replaced major former laws and regulations governing foreign investment in the PRC. See “Regulatory Overview – Regulations Relating to Foreign Investment” in this document. On December 30, 2019, the MOFCOM and the SAMR issued the Measures for the Reporting of Foreign Investment Information (《外商投資信息報告辦法》), which became effective on January 1, 2020 and replaced the Interim Measures for the Recordation Administration of the Formation and Modification of Foreign-Funded Enterprises (《外商投資企業設

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立及變更備案管理暫行辦法》)。Pursuant to the Measures for the Reporting of Foreign Investment Information where a foreign investor carries out investment activities in the PRC directly or indirectly, the foreign investor or the foreign investment enterprise shall submit the investment information to the competent commerce department.

The 2019 PRC Foreign Investment Law and the Implementation Rules do not use the concept of “control” in determining whether a company should be deemed as a foreign-invested enterprise, nor do they explicitly classify the VIE structure as a method of foreign investment. However, the 2019 PRC Foreign Investment Law has a catch-all provision that broadly defines “foreign investments” as those made by foreign investors in China through other methods as specified in laws, administrative regulations, or as stipulated by the State Council. Due to this broad definition of “foreign investments” since the 2019 PRC Foreign Investment Law and the Implementation Rules are newly adopted and relevant government authorities may promulgate additional rules and regulations as to the interpretation and implementation of the 2019 PRC Foreign Investment Law, there can be no assurance that the VIE structure adopted by us will not be deemed as a method of foreign investment by other laws, regulations and rules. Accordingly, there are substantial uncertainties as to whether our VIE structure may be deemed as a method of foreign investment in the future. If our VIE structure were to be deemed as a method of foreign investment under any future laws, regulations and rules, and if any of our business operations were to fall under the “negative list” as either “restricted” or “prohibited” from foreign investment in the 2021 Negative List, we would need to take further actions in order to comply with these laws, regulations and rules, which may materially and adversely affect our current corporate structure, business, financial condition and results of operations.

In an extreme scenario, we may be required to unwind the Contractual Arrangements and/or dispose of the WFOE, which could have a material and adverse effect on our business, financial condition and result of operations. In the event that we no longer have a sustainable business after the aforementioned unwinding of the Contractual Arrangements or disposal or in the event such measures are not complied with, the [REDACTED] of our Shares may significantly drop, and the Stock Exchange may take enforcement actions against us which may have a material adverse effect on the [REDACTED] of our Shares or even result in the [REDACTED] of our Company.

**We may not be able to conduct a substantial portion of our operations without the services provided by certain of our Consolidated Affiliated Entities.**

Our operations are currently dependent upon our commercial relationships with our Consolidated Affiliated Entities, and we derive most of our revenues from our Consolidated Affiliated Entities. If our Consolidated Affiliated Entities are unwilling or unable to perform the Contractual Arrangements which we have entered into with them, we may not be able to conduct our operations in the manner in which we currently do. In addition, our Consolidated Affiliated Entities may seek to renew the Contractual Arrangements on terms that are disadvantageous to us. Although we have entered into Contractual Arrangements that provide us with substantial ability to control the Consolidated Affiliated Entities, we may not succeed in enforcing our rights under them. If we are unable to renew the Contractual Arrangements on favorable terms, or to enter into similar agreements with other parties, our business may not expand, and our operating expenses may increase.

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## RISK FACTORS

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**We may lose the ability to use and enjoy licenses, approvals and assets held by our Consolidated Affiliated Entities that are material to our business operations if our Consolidated Affiliated Entities declares bankruptcy or becomes subject to a dissolution or liquidation proceeding.**

Our Consolidated Affiliated Entities hold certain licenses, approvals and assets that are important to our operations, including but without limitation, the ICP License, Internet Cultural Operation License and Internet Publishing Service License. Under our Contractual Arrangements, the Registered Shareholders of Easou Shenzhen may not voluntarily liquidate our Consolidated Affiliated Entities or approve them to sell, transfer, mortgage or dispose of their assets or legal or beneficial interests exceeding certain threshold in the business in any manner without our prior consent. However, in the event that the shareholders breach this obligation and voluntarily liquidate our Consolidated Affiliated Entities, or our Consolidated Affiliated Entities declare bankruptcy, or all or part of their assets become subject to liens or rights of third-party creditors or are distributed to other persons of higher priority than us in accordance with the applicable PRC laws and regulations, we may be unable to continue some or all of our operations, which could materially and adversely affect our business, financial condition and results of operations. Furthermore, if any of our Consolidated Affiliated Entities undergoes a voluntary or involuntary liquidation proceeding, their shareholders or unrelated third-party creditors may claim rights to some or all of its assets, thereby hindering our ability to operate our business as well as constraining our growth, which could materially and adversely affect our business, financial condition and results of operations.

**The Contractual Arrangements may be subject to scrutiny by the PRC tax authorities. A finding that we owe additional taxes could negatively affect our financial condition and the value of your [REDACTED].**

Pursuant to applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by PRC tax authorities within ten years after the taxable year when the transactions are conducted. We may be subject to material and adverse tax consequences if the PRC tax authorities determine that the Contractual Arrangements signed by, among others, our WFOE, our Consolidated Affiliated Entities and the Registered Shareholders of Easou Shenzhen are not at an arm's-length basis and adjust our Consolidated Affiliated Entity's income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by our Consolidated Affiliated Entities, which could in turn increase its tax liabilities without reducing our tax liabilities. In addition, the PRC tax authorities may impose late payment fees and/or other penalties to our Consolidated Affiliated Entities for under-paid taxes. Our consolidated net loss may be increased if our tax liabilities increase or if we are found to be subject to late payment fees or other penalties. As a result, our consolidated results of operations may be adversely affected.

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## RISK FACTORS

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**We will be subject to higher income tax rates and incur additional taxes as a result of the Contractual Arrangements, which may increase our tax expenses and decrease our net profit margin.**

Our Consolidated Affiliated Entities retained all net profits generated by them during the Track Record Period. However, under the Contractual Arrangements, the WFOE is entitled to receive the total consolidated profit, after offsetting the prior-year losses (if any) and operating costs, expenses, taxes and other statutory contributions in any financial year of Easou Shenzhen, as service fees, subject to adjustments made by the WFOE at its sole discretion. Such service fees payments to the WFOE are subject to VAT at the tax rate of 6% in the PRC. In addition, the WFOE is subject to enterprise income tax of 25% while certain of our Consolidated Affiliated Entities are entitled to preferential tax treatment, details of which are discussed in the paragraph headed "Financial Information – Description of Major Components of Our Combined Statements of Profit or Loss and Comprehensive Income – Income Tax Expense/(Credit)" in this document. As a result of the different income tax rates applicable to the WFOE and certain of our Consolidated Affiliated Entities and the VAT as mentioned above, any payment of service fees by the Consolidated Affiliated Entities to the WFOE under the Contractual Arrangements may increase our tax expenses and decrease our net profit and net profit margin.

**The Registered Shareholders of Easou Shenzhen, directors and executive officers of our Consolidated Affiliated Entities may have potential conflicts of interest with us, and they may breach their contractual arrangements with us or cause such arrangements to be amended in a manner contrary to our interests, which may materially and adversely affect our business.**

The PRC laws provide that a director and an executive officer owes a fiduciary duty to the company he or she directs or manages. The directors and executive officers of the Consolidated Affiliated Entities must act in good faith and in the best interests of the Consolidated Affiliated Entities and must not use their respective positions for personal gain. On the other hand, as a director of our company, the relevant individuals have a duty of care and loyalty to us and to our shareholders as a whole under Cayman Islands law. Nonetheless, conflicts of interests for these individuals may arise due to dual roles both as equity holders, directors and executive officers of the Consolidated Affiliated Entities and as our director or employee.

There can be no assurance that the Registered Shareholders of Easou Shenzhen will always act in our best interests should any conflicts of interest arise, or that any conflicts of interest will always be resolved in our favor. There also can be no assurance that these individuals will ensure that the Consolidated Affiliated Entities will not breach the Contractual Arrangements. If we cannot resolve any of these conflicts of interest or any related disputes, we would have to rely on legal proceedings to resolve these disputes and/or take enforcement action under the Contractual Arrangements. There is substantial uncertainty as to the outcome of any of these legal proceedings. Please see "– We rely on the Contractual Arrangements with our Consolidated Affiliated Entities for our operations in China, which may not be as effective in providing operational control as direct ownership, and our Consolidated Affiliated Entities may fail to perform their obligations under our Contractual Arrangements, resulting in litigation that may be time-consuming, costly, and unpredictable and adversely impact our operations and results." in this section.

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## RISK FACTORS

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

Pursuant to the Contractual Arrangements, the WFOE or its designated person(s) has the irrevocable and exclusive right to purchase all or any part of the equity interests in our Consolidated Affiliated Entities from the Registered Shareholders of Easou Shenzhen for a nominal price allowed under PRC laws and regulations at the time of transfer.

The transfer of equity or assets may be subject to the approvals from and filings with the SAMR and other competent governmental authorities and/or their local competent branches. In addition, the equity transfer price may be subject to review and tax adjustment by the relevant tax or commerce authority with reference to the fair value of such assets. The Registered Shareholders of Easou Shenzhen will pay the equity transfer price they receive to Consolidated Affiliated Entities instead of the price as stipulated under the Contractual Arrangements. The amount to be received by Consolidated Affiliated Entities may also be subject to enterprise income tax and these tax amounts could be substantial.

**We may rely on dividends paid by our PRC subsidiaries to fund cash and financing requirements. Any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business and to pay dividends to our Shareholders.**

We are a holding company, and we may rely on dividends to be paid by our PRC subsidiaries for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our Shareholders and service any debt we may incur and meet our other cash requirements. If our PRC subsidiaries or our Consolidated Affiliated Entities incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us.

Under applicable PRC laws and regulations, a wholly foreign-owned enterprise in China, such as the WFOE, may pay dividends only out of its accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its after-tax profits each year, after making up previous years' accumulated losses, if any, to fund certain statutory reserve funds, until the aggregate amount of such fund reaches 50% of its registered capital. These reserve funds are not distributable as cash dividends. Any limitation on the ability of the wholly foreign-owned enterprise to pay dividends or make other distributions to us or on the ability of our Consolidated Affiliated Entities to make remittance to our wholly-owned PRC subsidiaries could materially and adversely limit our ability to grow, make investments or acquisitions decisions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.



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### RISKS RELATING TO DOING BUSINESS IN CHINA

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

The PRC legal system is based on written statutes. Unlike common law systems, it is a system in which legal cases have limited value as precedents. In the late 1970s, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past three decades has significantly increased the protections afforded to various forms of foreign or private-sector investment in China. Our 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.

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

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since the 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. Furthermore, the PRC legal system is based in part on government policies and internal rules (some of which are not published in a timely manner or at all) that may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. 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 the PRC could materially and adversely affect our business and impede our ability to continue our operations.

#### **We may be subject to the approval or other requirements of the CSRC or other PRC government authorities in connection with our future capital raising activities.**

On July 6, 2021, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council jointly promulgated the Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law (關於依法從嚴打擊證券違法活動的意見) ("Opinions on Securities Activities"), which called for the enhanced administration and supervision of overseas-listed China-based companies, proposed to revise the relevant regulation

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governing the overseas issuance and listing of shares by such companies and clarified the responsibilities of competent domestic industry regulators and government authorities. As of the Latest Practicable Date, due to the lack of further clarifications and detailed rules and regulations, there were still uncertainties regarding the interpretation and implementation of the Opinions on Securities Activities, including China-based companies with a VIE structure.

On December 24, 2021, the CSRC released the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Enterprises (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 “Administrative Provisions”) and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Enterprises (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 “Filing Measures” and together with the Administrative Provisions, the “Draft Regulations on Overseas Listing”) for public comments, which had a comment period that expired on January 23, 2022. On February 17, 2023, the CSRC, as approved by the State Council, released the Trial Measures for Administration of Overseas Securities Offering and Listing by Domestic Enterprises (《境內企業境外發行證券和上市管理試行辦法》) (the “Trial Measures”), which will come into effect on March 31, 2023. The Trial Measures, supported by the New Filing Rules, provide significant details on the regulatory requirements, on both substance and format, that the CSRC would apply in connection with the filing procedures. Consistent with the Draft Regulations on Overseas Listing, the Trial Measures cover both “direct” and “indirect” offerings and listings overseas. Pursuant to the Trial Measures, any overseas offering and listing made by an issuer that meets both of the following conditions will be determined as indirect overseas offering and listing that requires filing with the CSRC: (i) 50% or more of the issuer’s operating revenue, total profit, total assets or net assets as documented in its audited consolidated financial statements for the most recent accounting year is accounted for by the PRC domestic companies; and (ii) the key aspects of the issuer’s business activities are conducted in the PRC, or its main places of operations are within the PRC, or the senior managers in charge of its operation and management are mostly Chinese citizens or domiciled in the PRC. The determination as to whether or not an overseas offering and listing by Chinese domestic companies is indirect, shall be made on a substance-over-form basis. We use the Contractual Arrangements to establish control of the Consolidated Affiliated Entities, through which we operate our business in the PRC. Subject to the New Filing Rules, we are required to go through the filing procedures with the CSRC and to obtain the CSRC approval with respect to the [REDACTED] after the submission of our application for the [REDACTED] to the Stock Exchange. Therefore, we face uncertainties as to the filing procedures under the New Filing Rules.

The CSRC is expected to complete the filing review within 20 work days after it has received all application documents that satisfy the requirements, and the filing result will be made public on the CSRC’s official website. However, the time needed for supplementing application documents and consultation with other regulators does not count towards this time limit. See “Regulatory Overview – Regulations Relating to Foreign Exchange” and “Regulatory Overview – Regulation Relating to M&A and Overseas Listing” in this document for more details. Pursuant to the Trial Measures, our Company, for the purpose of the [REDACTED], is conducting an “indirect overseas [REDACTED] and [REDACTED] by domestic companies”. Therefore, we are required to obtain the approval from the CSRC, which may, depending on the circumstances, consult with

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certain other PRC regulatory authorities where necessary. We may incur significant time, costs and resources to comply with these newly implemented regulatory requirements. We also face uncertainties as to such CSRC approval.

Furthermore, according to Article 6 of the 2021 Negative List, where a domestic company engaged in the business in the prohibited areas provided in the 2021 Negative List seeks to issue and list its shares overseas, it shall complete the examination process and obtain approval by the relevant competent authorities; the foreign investors shall not participate in the operation and management of the company; its shareholding percentage shall be subject to the relevant provisions on the administration of domestic securities investment by foreign investors. See “Regulatory Overview – Regulations Relating to M&A and Overseas Listing” for more details.

As of the date of this document, we had not received any inquiry, notice, warning or sanctions regarding the proposed [REDACTED] or our corporate structure from the CSRC or any other PRC government authorities with respect to the filing requirement under the new regulatory regime or with respect to the VIE structure. However, we cannot guarantee that the new rules or regulations to be promulgated and come into effect in the future, including without limitation to the Trial Measures, will not impose any additional requirements on us or otherwise tighten the regulations on companies with a VIE structure. Based on the above, we are subject to the CSRC approval, filing, other governmental authorization or requirements, we may fail to obtain such approval or meet such requirements in a timely manner or at all. Such failure may adversely affect our ability to finance the development of our business and may have a material adverse effect on our business and financial condition.

**We face uncertainty with respect to the indirect transfer of equity interests in PRC resident enterprises by their non-PRC holding companies.**

The SAT issued the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC 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”) on February 3, 2015, and amended it on October 17, 2017 and December 29, 2017, which partially replaced and supplemented previous rules under the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (“Circular 698”), which was issued by the SAT in 2009. Pursuant to Circular 7, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if the arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from the indirect transfer may be subject to PRC enterprise income tax. According to Circular 7, “PRC taxable assets” include assets attributed to an establishment in China, immovable properties located in China, and equity investments in PRC resident enterprises. Gains derived from the transfer of PRC taxable assets by a direct holder that is a non-PRC resident enterprise is subject to PRC enterprise income taxes. When determining whether an arrangement has a “reasonable commercial purpose”, the following factors are considered:

- whether the value of the equity interest of the relevant offshore enterprise is mainly derived from PRC taxable assets;

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- whether the assets of the relevant offshore enterprise mainly consist of direct or indirect investment in China;
- whether the income of the relevant offshore enterprise is mainly generated from China;
- whether the offshore enterprise and its subsidiaries directly or indirectly holding PRC taxable assets have real commercial nature as evidenced by actual function and risk exposure;
- for how long the existing business model and organizational structure of the relevant offshore enterprise has existed;
- the income tax payable outside of PRC on the gains derived from the indirect transfer of PRC taxable assets;
- the replicability of the arrangement by direct transfer of PRC taxable assets; and
- the tax situation of such indirect transfer and applicable tax treaties or similar arrangements.

Gains derived from an indirect offshore transfer of assets of a PRC establishment or place of business are to be included in the enterprise income tax filing of the PRC establishment or place of business, and are subject to a PRC enterprise income tax rate of 25%. In case of a transfer of immovable properties located in China or of equity investments in a PRC resident enterprise, which is not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax rate of 10% applies, subject to available preferential tax treatment under applicable tax treaties or similar arrangements. The party who is obligated to pay for the transfer has the withholding obligation with respect to the transfer. Where the payor fails to withhold sufficient tax, the transferor is required to declare and pay such tax to the tax authority by itself within the statutory time limit. Late payment of applicable tax will subject the transferor to overdue payments, or fines and other rectifying measures. Circular 7 does not apply to sales of shares by investors stock exchange.

We face uncertainties as to the application of Circular 7 and previous rules under Circular 698, including reporting and other obligations with respect to certain past and future transactions where PRC taxable assets are involved, such as offshore restructuring, sale of the shares in our offshore subsidiaries or investments. We may be subject to filing obligations or taxed as the transferor, or subject to withholding obligations as the transferee, in the transactions. For transfer of our shares by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in filings under Circular 698 and Circular 7. We may be required to allocate valuable resources to comply with Circular 698 and Circular 7, to request relevant transferors from whom we purchase taxable assets to comply with these rules, or to establish that we should not be taxed under these rules, which may have a material adverse effect on our financial condition and results of operations.

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

Substantially all of our operations are located in mainland China. Accordingly, our business, prospects, financial condition and results of operations may be influenced to a significant degree by political, economic and social conditions in mainland China generally and by continued economic growth in mainland China as a whole.

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

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

**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 M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009, among other things, established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. Such regulation requires, among other things, that the foreign investor should submit a declaration to the MOFCOM in advance of any change-of-control transaction in which a foreign investor acquires control of a PRC domestic enterprise and involves any of the following circumstances: (i) any important industry is concerned, (ii) such transaction involves factors that impact or may impact national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. Moreover, the Anti-Monopoly Law (中華人民共和國反壟斷法) promulgated by the SCNPC, which became effective in 2008, requires that the transactions which are deemed concentrations and involve parties with



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specified turnover thresholds must be notified and cleared by the Anti-Monopoly Bureau of SAMR before they can be completed. In addition, Implementation of Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, effective in September 2011 and Measures for the Security Review of Foreign Investment that came into effect in January 2021, requires acquisitions by foreign investors of PRC companies engaged in certain industries that are crucial to national security be subject to security review before consummation of any such acquisition.

The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for overseas listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange, in the event that the special purpose vehicle acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies. Moreover, such offshore special vehicle, if through acquisitions of PRC domestic companies by its affiliated PRC companies or individuals in the process of its corporate offshore restructuring, shall also obtain the approval of MOFCOM.

We may pursue potential strategic acquisitions that are complementary to our business and operations in the future. Complying with the requirements of these regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval or clearance from MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

**We may be 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 [REDACTED].**

Under the PRC Enterprise Income Tax 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 State Administration of Taxation, or 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 controlled by PRC individuals or foreigners 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



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records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

We believe none of our entities outside of China is a PRC resident enterprise for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.” As substantially all of our management members are based in China, it remains unclear how the tax residency rule will apply to our case. If the PRC tax authorities determine that Easou Technology Holdings Limited or any of our subsidiaries outside of China is a PRC resident enterprise for PRC enterprise income tax purposes, then Easou Technology Holdings Limited 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. Furthermore, if the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, gains realized on the sale or other disposition of our ordinary shares may be subject to PRC tax, at a rate of 10% in the case of non-PRC enterprises or 20% in the case of non-PRC individuals (in each case, subject to the provisions of any applicable tax treaty), if such gains are deemed to be from PRC sources. It is unclear whether non-PRC shareholders of our company would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Any such tax may reduce the returns on your [REDACTED] in our Shares.

**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 all of our revenue in RMB. Under our current corporate structure, our Company in the Cayman Islands relies on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from State Administration of Foreign Exchange, or 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, subject to the condition that the remittance of such dividends outside of the PRC complies with certain procedures under PRC foreign exchange regulation, such as the overseas investment registrations by the beneficial owners of our company who are PRC residents. However, approval from or registration with appropriate governmental authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies.

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

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

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

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration with relevant governmental authorities in China. According to the relevant PRC regulations on foreign-invested enterprises in China, capital contributions to our PRC subsidiaries are subject to the requirement of making necessary filings in the Foreign Investment Comprehensive Management Information System, or FICMIS, 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 as recorded in FICMIS. Any medium or long term loan to be provided by us to our Consolidated Affiliated Entities must be recorded and registered by the National Development and Reform Committee and the SAFE or its local branches. We may not be able to complete such recording or registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us directly to our PRC subsidiaries. If we fail to complete such recording or registration, our ability to use the [REDACTED] of this [REDACTED] and to capitalize our PRC operations maybe 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 became effective on June 1, 2015. SAFE Circular 19 launched a nationwide reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises and allows foreign-invested enterprises to settle their foreign exchange capital at their discretion, but continues to prohibit foreign-invested enterprises from 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 fund converted from its foreign exchange capitals for expenditure beyond its business scope, investment and financing (except for securities investment or non-guaranteed bank products), providing loans to non-affiliated enterprises or constructing or purchasing real estate not for self-use. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer to and use in China the net [REDACTED] from this [REDACTED], which may adversely affect our business, financial condition and results of operations.

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

We have been granted certain governmental subsidies and tax preferences. Enterprises that qualify as “high and new technology enterprises” are entitled to a preferential rate of 15% for three years. Easou Shenzhen was accredited as a “High and New Technology Enterprise” in 2019 and therefore, it was entitled to a preferential EIT rate of 15% from 2019 to 2021. Easou Beijing was accredited as “High and New Technology Enterprise” in 2019 and therefore, it was entitled to a preferential EIT rate of 15% from 2019 to 2021. In October 2022, Easou Beijing successfully renewed its certificate of High and New Technology Enterprise and was entitled to continue to enjoy the preferential EIT rate of 15% from 2022 to 2024. In December 2022, Easou Shenzhen successfully renewed its certificate of High and New Technology Enterprise and was entitled to continue to enjoy the preferential EIT rate of 15% from 2022 to 2024. Guangzhou Ledian was accredited as a “High and New Technology Enterprise” in 2021, and therefore, was entitled to a preferential EIT rate of 15% from 2021 to 2023. Certain of our subsidiaries applied for preferential tax treatment under the “Small-Scaled Minimal Profit Enterprise Income Tax Preferential Policy” (《小微企業所得稅優惠政策》) during the Track Record Period, and therefore, were entitled to a preferential EIT rate ranging from 5.0% to 10.0% in 2020 and from 2.5% to 10.0% in 2021 and the nine months ended September 30, 2022. See the section headed “Financial Information – Description of Major Components of Our Combined Statements of Profit or Loss and Comprehensive Income – Income Tax Expenses/(Credit)” in this document. Nevertheless, the preferential tax rates enjoyed by certain of our Consolidated Affiliated Entities are non-recurring in nature, and the government agencies may decide to reduce, eliminate or cancel such subsidies and preferential tax treatments at any time. We cannot assure you of the continued availability of the government subsidies and preferential tax treatments currently enjoyed by us. The discontinuation, reduction or delay of these governmental subsidies and preferential tax treatments could adversely affect our financial condition and results of operations.

**There are uncertainties with respect to value-added tax rates relating to the tax liabilities of our PRC subsidiaries.**

The MOF, the STA and the General Administration of Customs promulgated the Notice On Relevant Policies for Deepening Value Added Tax Reform (《關於深化增值稅改革有關政策的公告》) on March 20, 2019, which provides that the value-added tax rate of 16% in manufacturing and other industries is reduced to 13%, the value-added tax rate of 10% in transportation and other industries is reduced to 9%, and the value-added tax rate in value-added telecommunications service and other industries stays at 6% from April 1, 2019. It is uncertain whether the value-added tax rate will be raised in the future, which could have a material adverse effect on our financial condition and results of operations.

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**We may be subject to penalties, including restriction on limit our PRC subsidiaries' ability to increase their registered capital or 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. Circular 37 was promulgated by the SAFE in July 2014 that requires 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 an increase or decrease in capital, transfer or swap of shares, merger or division. If any PRC shareholder fails to make the required registration or update the previously filed registration, the PRC subsidiary of that offshore parent company may be restricted from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to their offshore parent company, and the offshore parent company may also be restricted from injecting additional capital into its PRC subsidiary. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions, including (i) the requirement by the SAFE to return the foreign exchange remitted overseas or into 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 have requested PRC residents holding direct or indirect interest in our Company to our knowledge to make the necessary applications, filings and amendments as required by applicable foreign exchange regulations. All individual Shareholders of our Company who are PRC citizens have duly completed their registration under the Circular 37. 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 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 Circular 37 or other related regulations could subject us to fines or legal sanctions, restrict our investment activities in the PRC and overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions, pay dividends or other payments to us or

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affect our ownership structure, which could adversely affect our business and prospects. As of the Latest Practicable Date, our individual Shareholders who are PRC citizens have completed their registration under the Circular 37.

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.

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

In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies, or SAFE Circular 7, replacing the previous rules issued by SAFE in March 2007. Under the SAFE Circular 7 and other relevant rules and regulations, PRC residents who participate in a stock incentive plan in an overseas publicly-listed company are required to register with SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. Additionally, Circular 37 stipulates that PRC residents who participate in a share incentive plan of an overseas non-publicly-listed special purpose company may register with SAFE or its local branches before they exercise the share options. We may grant share options in the future, which will be subject to these regulations upon the completion of this [REDACTED]. Failure of our PRC share option holders or restricted shareholders to complete their SAFE registrations may subject these PRC residents to fines of up to RMB300,000 for entities and up to RMB50,000 for individuals, and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiary, limit our PRC subsidiary's ability to distribute dividends to us, or otherwise materially adversely affect our business.



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The SAT has also issued relevant rules and regulations concerning employee share incentives. Under these rules and regulations, our employees working in the PRC will be subject to PRC individual income tax upon exercise of the share options or grant of the restricted shares. Our PRC subsidiaries have obligations to file documents with respect to the granted share options or restricted shares with relevant tax authorities and to withhold individual income taxes for their employees upon exercise of the share options or grant of the restricted shares. If our employees fail to pay or we fail to withhold their individual income taxes according to relevant rules and regulations, we may face sanctions imposed by the competent governmental authorities.

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

We are an exempted company incorporated in the Cayman Islands. Substantially all of our assets are located in China, which is also where all of our current operations are conducted. In addition, a majority of our current directors and officers are nationals and residents of China and substantially all of the assets of these persons are located in 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.

On July 14, 2006, mainland China and Hong Kong entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (the “2006 Arrangement”), pursuant to which a party with a final judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in China. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the 2006 Arrangement in which a mainland China Court or a Hong Kong court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in mainland China if the parties in dispute have not agreed to enter into a choice of court agreement in writing. Although the Arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the Arrangement may still be uncertain. On January 18, 2019, the Supreme People’s Court and the Hong Kong SAR Government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排) (the “2019 Arrangement”), which seeks to establish a mechanism with greater clarity and certainty for recognition and enforcement of judgments in a wider range of civil and commercial matters between mainland China and Hong Kong, based on criteria other than a written bilateral choice of court agreement. The 2019 Arrangement has not taken effect, and if it becomes effective, it will supersede the 2006 Arrangement. Therefore, the 2006 Arrangement will continue to apply to a choice of court agreement in writing signed before the 2019 Arrangement comes into effect and recognition and enforcement in the PRC of judgments of a foreign court may be difficult.



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In addition to the above, because there are no clear statutory and judicial interpretations or guidance on a PRC court's jurisdiction over cases brought under foreign securities laws, it may be difficult for 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.

### **It may be difficult for overseas regulators to conduct investigation or collect evidence in China.**

Shareholder claims or regulatory investigations that are common in common law jurisdictions (including securities law class actions and fraud claims) generally are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to providing information needed for regulatory investigations or litigation initiated outside China. Although the authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such cooperation with the securities regulatory authorities in the United States may not be efficient in the absence of a mutual and practical cooperation mechanism. Furthermore, according to Article 177 of the PRC Securities Law, or Article 177, which became effective in March 2020, no overseas securities regulator may directly conduct investigations or collect evidence and no entities or individuals may provide documents or materials in connection with securities activities without proper authorization as stipulated under Article 177. While detailed interpretation of or implementation rules under Article 177 have yet to be promulgated, the inability of an overseas securities regulator to directly conduct investigations or collect evidence within China may further increase difficulties faced by you in protecting your interests.

### **We face uncertainties with respect to the interpretation and implementation of the Anti-Monopoly Guidelines for the Internet Platform Economy Sector.**

In February 2021, the Anti-Monopoly Commission of the State Council published the Anti-Monopoly Guidelines for the Internet Platform Economy Sector (《關於平台經濟領域的反壟斷指南》) that aims at specifying some of the circumstances under which an activity of internet platforms may be identified as monopolistic act as well as setting out merger controlling filing procedures involving variable interest entities. Due to the uncertainties associated with the evolving legislative activities and varied local implementation practices of anti-monopoly and competition laws and regulations in the PRC, it may be costly to adjust some of our business practice in order to comply with these laws, regulations, rules, guidelines and implementations, and any incompliance or associated inquiries, investigations and other governmental actions may divert significant management time and attention and our financial resources, bring negative publicity, subject us to liabilities or administrative penalties, and/or materially and adversely affect our financial conditions, operations and business prospects.

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

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

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

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

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

Prior to the [REDACTED], there has been no [REDACTED] for our Shares. The initial [REDACTED] range for our Shares was the result of negotiations between our Company and the [REDACTED] (for itself and on behalf of the [REDACTED]) and the [REDACTED] may differ significantly from the [REDACTED] for our Shares following the [REDACTED]. We have applied for [REDACTED] of and permission to [REDACTED] our Shares on the Stock Exchange. There is no assurance that the [REDACTED] will result in the development of an active, liquid [REDACTED] for our Shares.

The liquidity, [REDACTED] and [REDACTED] for our Shares could be highly volatile and subject to wide fluctuations in response to factors including the following:

- our financial results;
- changes in securities analysts' estimates, if any, of our financial performance; the history of, and the prospects for, us and the industry in which we compete;
- assessments of our management, our past and present operations, and the prospects for, and timing of, our future revenue and cost structures such as the views of independent research analysts, if any;
- the present state of our development;

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- the valuation of publicly traded companies that are engaged in business activities similar to ours;
- general market sentiment regarding the entertainment industry and companies;
- changes in laws and regulations in China;
- our ability to compete effectively in the market; and
- political, economic, financial and social developments in China and worldwide.

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

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

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

**Potential [REDACTED] could face dilution as a result of future equity financings.**

The [REDACTED] of our Shares is higher than the net tangible asset value per Share immediately prior to the [REDACTED]. Therefore, [REDACTED] of our Shares in the [REDACTED] will experience an immediate dilution in [REDACTED] adjusted combined net tangible asset. There can be no assurance that if we were to immediately liquidate after the [REDACTED], any assets will be distributed to Shareholders after the creditors' claims. To expand our business, we may consider [REDACTED] and [REDACTED] additional Shares in the future. In addition, [REDACTED] of our Shares may experience further dilution of their interest if the [REDACTED] exercise the [REDACTED] or if we issue additional shares in the future.

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

The [REDACTED] of our Shares is expected to be determined on the [REDACTED]. However, our Shares will not commence [REDACTED] on the Stock Exchange until they are delivered, which is expected to be several business days after [REDACTED]. As a result, [REDACTED] may not be able to sell or [REDACTED] our Shares during that period.

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

**Future or perceived sales of substantial amounts of our Shares could affect their [REDACTED].**

Future sales or perceived sales by our existing Shareholders of our Shares after the [REDACTED] could result in a significant decrease in the prevailing [REDACTED] of our Shares. Only a limited number of our Shares currently outstanding will be available for sale or issuance immediately after the [REDACTED] due to contractual and regulatory restrictions on disposal and new issuance. Nevertheless, after these restrictions lapse or if they are waived, future sales of significant amounts of our Shares in the [REDACTED] or the perception that these sales may occur could significantly decrease the prevailing [REDACTED] of our Shares and our ability to raise equity capital in the future.

**We have significant discretion as to how we will use the net [REDACTED] of the [REDACTED], and may use the net [REDACTED] in ways with which you may disagree or that may not be profitable for our Company.**

Our management may spend the net [REDACTED] from the [REDACTED] in ways you may not agree with or that do not yield a favorable return to our Shareholders. We plan to use the net [REDACTED] from the [REDACTED] for purposes including funding our new businesses, R&D to enhance our technological and data analytical capabilities, funding our potential strategic alliances, investments and acquisitions and conducting marketing activities and strengthening our brand image. See "Future Plans and Use of [REDACTED]." However, our management will have discretion as to the actual application of our net [REDACTED]. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the net [REDACTED] from this [REDACTED].

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

We cannot assure you when and in what form dividends will be paid on our Shares after the [REDACTED]. The declaration and distribution of dividends is at the discretion of the Board, and our ability to pay dividends or make other distributions to our Shareholders is subject to various factors, including our business and financial performance, capital and regulatory requirements and general business conditions. We may not be able to have sufficient or any profits to enable us to make dividend distributions to our Shareholders in the future, even if our financial statements indicate that our operations have been profitable. As a result of the above, we cannot assure you that we will make can make dividend payments on our Shares in the future. See "Financial Information – Dividend" in this document for more details.

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

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

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

This document, particularly the sections headed “Business” and “Industry Overview” contains information and statistics relating to the entertainment market. Such information and statistics have been derived from a third-party report commissioned by us and publicly available sources. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of such source materials. The information has not been independently verified by us, the Sole Sponsor, [REDACTED] or any other party involved in the [REDACTED], and no representation is given as to its accuracy. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practice, which may result in the statistics included in this document being inaccurate or not comparable to statistics produced for other economies. You should therefore not place undue reliance on such information. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. You should consider carefully the importance placed on such information or statistics.

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

This document contains certain statements and information that are “forward-looking” and uses forward-looking terminology such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “may,” “ought to,” “should” or “will” or similar terms. Those statements include, among other things, the discussion of our Company’s growth strategy and expectations concerning our future operations, liquidity and capital resources. [REDACTED] of the Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate, and, as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include, but are not

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limited to, those identified in this section, many of which are not within our Company's control. In light of these and other uncertainties, the inclusion of forward-looking statements in this document should not be regarded as representations by our Company that our plans or objectives will be achieved and [REDACTED] should not place undue reliance on such forward-looking statements. Our Company does not undertake any obligation to update publicly or release any revisions of any forward-looking statements, whether as a result of new information, future events or otherwise. Please see "Forward-looking Statements" in this document for further details.

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

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

You should rely solely upon the information contained in this document, the [REDACTED] and any formal announcements made by us in Hong Kong in making your [REDACTED] decision regarding our Shares. By applying to [REDACTED] our Shares in the [REDACTED], you will be deemed to have agreed that you will not rely on any information other than that contained in this document and the [REDACTED].