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

The occurrence of any of the following events could materially and adversely affect our business performance, financial condition, results of operations or prospects. If any of these events occurs, the [**REDACTED**] *of our* [**REDACTED**] *could decline and you may lose all or part of your investment. You should seek professional advice from your relevant advisers regarding your prospective investment in the context of your particular circumstances.*

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

If the web series and web films produced, distributed and/or co-invested by us cannot suit the preferences of the audience, our business, results of operations and financial condition may be materially and adversely affected.

Given that our revenue is primarily generated from production, distribution and/or co-investment of web series and web films, the reception and popularity of our web series and web films, which largely depends on the preferences of the audience and our customers, are generally important to our business performance. As such, we need to keep track of the market trends and recent preferences of the target audience, which can be subject to frequent changes, on a constant basis for sustaining our business growth. According to the Frost & Sullivan Report, there has been a significant increase in the number of revenue-sharing web series, the revenue of which are generated from paying users of online video platforms and is predominantly based on the number of viewing and length of viewing by the audience, while currently all web films adopt the revenue-sharing model. This indicates that the public audiences' preference is of growing importance in the web series and web films market. During the Track Record Period, we had in aggregate 19 web series and 37 web films both initially broadcast and generated revenue during the Track Record Period, respectively. The revenue generated from revenue-sharing web series accounted for 4.4%, 10.3% and 36.9%, while the revenue generated from web films accounted for 12.0%, 17.2% and 23.9% of our total revenue for the year ended 31 December 2020, 2021 and 2022, respectively.

According to the Frost & Sullivan Report, due to the increasing penetration of mobile internet, the viewer base of the web series and web films are also growing with more demographical groups included and therefore more genres of web series and web films will emerge to cater for the preferences of the different viewers. Moreover, the audience these days generally look for high-quality content in terms of depth and diversity when they select web series and web films for viewing. We have imposed various measures to continuously identify the audience's preferences and market trends for planning and development of our web series and web films. For details, see "Business — Our Business Process". Nonetheless, there is no assurance that we can continue to react to ever-changing preferences and requirements of public audience in a timely manner. In the event that we fail to produce, distribute and/or invest in the web series and web films of the appropriate genre and quality standard that can match the evolving taste and requirements of the audience, our market share and financial performance may be materially and adversely affected.

We heavily rely on the top five online video platforms as the distribution channels of our web series and web films and hence any deterioration of our relationship with such online video platforms could materially and adversely affect our business, financial condition, results of operations and growth prospects.

Since our establishment, our web series and web films have predominantly been broadcast in the top five online video platforms including Youku, iQIYI, Tencent Video, Mango TV and Bilibili. In addition, the online video platforms may offer us cooperation opportunities regarding the development and production of made-to-order web series, for which we would be responsible for overseeing and handling the production process in return for a production fee. During the Track Record Period, we have distributed our web series and web films on all of the top five major online video platforms.

In the web series and web films market in the PRC, the top five online video platforms tend to retain a strong market position and thus we may have limited bargaining power when we negotiate on the terms for the distribution or cooperation of our web series and web films. If they decide not to broadcast or limit or reduce its cooperation with us, or to add or amend any terms or conditions in a way that would be adverse to us, our business, financial condition, results of operations and growth prospects may be materially and adversely affected. In addition, adverse changes in market share, public image and financial position of online video platforms may negatively affect our business, financial condition, results of operations and growth prospects. If any of the major online video platforms that cooperated with us experience any liquidity issues, this may lead to delay or default in settling the share of revenue for revenue-sharing web series or web films, fixed licensing fees for original web series and production fees for made-to-order web series, which would in turn adversely affect our business, financial condition, results of operations and growth prospects.

Our revenue is generally generated on a project-by-project basis and therefore historical financial performance may not be indicative of our future financial performance.

Our financial performance is largely affected by the financial performance of a limited number of web series and web films, which are conducted on a project-by-project basis. Our percentage of investment in and revenue generated from each of our web series and web films varied significantly, depending on the revenue recognition model adopted for each individual web series, web film and IP. During the Track Record Period, excluding loss-making web series and web films as disclosed in the section headed "Business – Our Business Model," the revenue generated from a single web series mainly ranged from RMB0.1 million to RMB74.1 million, while the revenue generated from a single web film mainly ranged from RMB5,000 to RMB39.4 million.

The range of gross profits generated from each web series and web film also varied significantly, depending on a variety of factors including the type of web series, the investment scale, our percentage of investment, revenue recognition model adopted and the general industry environment at the time when we broadcast the web series and web films. Generally, the gross profit margin of revenue-sharing web series, web films and original web series can fluctuate substantially but can be as high as approximately 80.0%, while the gross profit margin of made-to-order web series is relatively stable at approximately 10% to 20%. Also, the revenue and gross profit generated by a web series or web film can vary substantially due to numerous factors such as genre, market trends and rating given to our web series and web films by the online video platforms after their internal assessment. We also choose to adopt different revenue recognition models such as transfer and sales income for the projects on hand, taking into account factors including (i) potential for further development of an IP; (ii) expected licensing income and/or investment return of a web series, web film or theatrical film; and (iii) our working capital and funding needs. As such, the revenue contribution and the corresponding profit margin of a certain web series and web film in a given financial period may significantly affect our results of operations during the same period. For details, see "Financial Information — Description of Major Components of Our Results of Operations — Revenue" and "Financial Information — Description of Major Components of Our Results of Operations — Gross Profit and Gross Profit Margin."

Our operations and financial condition would be adversely affected if we are unable to develop new web series and web films successfully, fail to secure satisfactory broadcasting results regarding our projects, or maintain reasonable or favourable key commercial terms with our customers in a particular financial period. As such, our historical financial performance may not be indicative of our future financial performance.

Our financial performance for a particular period highly depends on a limited number of web series, web film, theatrical film and IP during the same period, which may result in wide fluctuations of financial performance.

Our results of operations are largely affected by the financial performance of a limited number of web series, web films and theatrical films we produce and invest in. We recognise revenue from a limited number of web series, web films, theatrical films and IPs each year during the Track Record Period, and therefore the financial performance of a single web series, film and IP could have material impact on our operations. If one or more web series and web films incurred significant cost-overrun, our financial performance could be adversely affected. In addition, our investment in and revenue generated from each of our web series and web films varied significantly. The range of gross profits generated from each web series and web film also varied significantly, depending on a variety of factors including the type of web series, the investment scale, our percentage of investment, revenue recognition model adopted and the general industry environment at the relevant time. Consequently, the contribution of certain web series, web films and theatrical films to our total revenue and their profit margin could affect our results of operations in the future.

Any delay in the production or distribution of or unexpected increase in production or distribution cost for web series and web films may have material adverse impact on our Group's financial performance.

For the production of our web series and web films, the production budget and schedule would generally be formulated at the early stage of planning and development. Nonetheless, unforeseen circumstances during production, such as accidents, equipment damage or malfunction, damages to filming records, unavailability of filming locations, delay in obtaining the requisite permits or licenses, natural disasters and unavailability of producers, directors or actors due to injuries or health issues, other engagement or a ban from the entertainment industry as a result of their personal behaviour, may disrupt the production progress. The distribution of our web series and web films may also be delayed due to the changes in production schedule or failure to obtain the relevant record filing numbers for distribution and broadcasting, leading to the delay in the initial broadcasting of our web series and web films. In addition, a delay in production or distribution schedule may cause a breach of the agreements with our customers and may enable them to terminate the agreements, which would materially and adversely affect our business, financial condition and results of operations.

Any delay or adjustment in production or distribution schedule may lead to material increase in the production or distribution cost. In circumstances where the production cost of a web series or web film significantly exceeds its budget, we and other co-investors may reach consensus to contribute additional financial resources. In addition, when we are providing production services for made-to-order web series, we may be required to bear the overrun costs pursuant to the relevant agreements. For the years ended 31 December 2020, 2021 and 2022, our costs of sales amounted to RMB165.6 million, RMB249.8 million and RMB113.8 million, respectively. In case there is unexpected increases in production costs and we fail to obtain additional financial resources, our results of operation and financial performance may be adversely affected.

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

We operate in a fragmented, rapidly evolving and highly competitive market. We compete with existing web series and web film producers and/or distributors for audiences, distribution channels and investment budgets, as well as talents. We may also face competition from new market entrants in the future.

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

The web series and web films industries are extensively regulated by various laws, rules and requirements. Failure to obtain all required approvals or any promulgation of additional applicable laws or regulations may have a material and adverse effect on our business, financial condition and results of operations.

The production and distribution of web series and web films in the PRC are subject to a series of rules and requirements. For instance, we are required to register the information of the web series or web film in order to apply for a planning record-filing number of each web series or web film through the information recording filing system managed by NRTA before the production process, pursuant to the Notice about Upgrading the Information Recording Filing System of the Internet Audio-visual Programme (關於網絡視聽節目信息備案系統升級的通知) and before distribution of web series and web films, we need to register on the information recording filing system again for obtaining the broadcasting record-filing numbers, which is essential for the purpose of broadcasting on audio-visual websites. We also need to obtain the Radio and Television Program Production and Operation Permit (《廣播電視節目製作經營許可證》) for our business operation pursuant to Supplemental Notice of Circular on Further Strengthening the Administration of Online Audio-visual Programmes Including Web Series and Micro Films (關於進一步完善網絡劇、微電影等網絡視聽節目管理的補充通知). For details in relation to laws, rules and regulations applicable to our business operations, see "Regulatory Overview". As of the Latest Practicable Date, our Group have obtained Radio and Television Program Production and Operation Permit (廣播電視節目製作經營許可證). For details, see "Business — Licences and permits". In case we are unable to obtain requisite licences for production and distribution of our web series and web films, or any of our licences are revoked in full or in part, or fail to renew any of our required licences upon their expiration, we may not be able to carry on with our operations on production and/or distribution of our web series and web films. As a result, our business, financial condition and results of operations will be materially adversely affected.

Further, more stringent laws and regulations have been formulated by the relevant government authorities for the production and distribution of web series and web films in recent years. For example, the NRTA issued the Notice on Emphasizing the Management and Regulation of Entertainment Programs and Related Personnel (關於進一步加強文藝節目及其人員管理的通知) on 2 September 2021 requiring radio and television institutions and online audio-visual platforms to resolutely reject persons who violate laws and morality, adamantly reject persons with incorrect political positions and whose thoughts and values have diverged from the Communist Party of China and the state. The Publicity Department of the Central Committee of the Communist Party of China (中共中央宣傳部) also issued the Notice on Conducting the Comprehensive Management of Entertainment Field (關於開展文娛領域綜合治理工作的通知) in September 2021 requiring enterprises to resist sky-high remuneration of actors and directors and strictly prohibit tax evasion. The General Office of the Ministry of Culture and Tourism of the PRC (中華人民共和國文化和旅遊部辦公廳) also issued the Notice on Further Strengthening the Education and Moral Enhancement of Artists (關於進一步加強文藝工作者教育管理和道德建設的通知) on 30 August 2021 discouraging artists from receiving sky-high remuneration, entering into "yin-yang contracts" and tax evasion. As confirmed by our Directors, we had been in compliance with such notices since their issuance and had not been the subject of any review, enquiry or investigation by any PRC regulatory authorities in relation to such notices during the Track Record Period and up to the Latest Practicable Date. However, such notices may limit our capability of selecting suitable actors, and in turn may affect the appeal and popularity of our web series and web films. For details, see "Regulatory Overview – III. Regulations in relation to Production and Distribution of Drama Series" and "Regulatory Overview – VI. Regulations in relation to Artists." If we fail to comply with the evolving laws, regulations and policies, our business, financial condition and results of operations could be materially and adversely affected.

Moreover, additional or more stringent laws, rules and regulations in respect of our business operations in the web series and web films market may be promulgated, which may possibly require us to adopt certain changes to ensure compliance, and could restrict or otherwise unfavourably affect the manner of how we operate. Whether the PRC government will impose additional or more stringent laws or regulations on the production and distribution of web series and web films in the future cannot be predicted with certainty. Any such additional or more stringent laws or regulations may lead to an adverse impact on our results of operations and financial performance.

Fluctuations of the fair value in relation to investment/amount received under co-investment in web series and film without copyrights and related valuation uncertainty may adversely affect our financial position.

During the Track Record Period, we derived net investment income (the "**Net Investment Income**") from co-investment of web series and films, mainly comprising (i) share of income based on the co-investment agreement (in respect of web series/films for which we are not entitled to the copyrights); and (ii) transfer of our rights of return under the co-investment agreement (inclusive of web series/films for which we are and are not entitled to the copyrights), accounting for RMB46.2 million and RMB19.6 million for the years ended 31 December 2020 and 2021, respectively, while we recorded net investment loss from co-investment of web series and films of RMB1.5 million for the year ended 31 December 2022. For details, see "Business – Our Revenue Recognition Model – ③ Net investment income from co-investment of web series and films". Our Net Investment Income, however is affected by the changes in our financial assets and financial liabilities at fair value through profit and loss derived from investment under co-investment arrangement without copyright. During the Track Record Period, our financial assets at fair value through profit and loss derived from investment under co-investment arrangement without copyright amounted to RMB41.7 million, RMB49.6 million and RMB42.7 million as of 31 December 2020, 2021 and 2022, respectively, whereas our financial liabilities at fair value through profit or loss derived from the amount received under the co-investment arrangements without copyrights amounted to RMB71.2 million, RMB56.3 million and RMB18.6 million as of 31 December 2020, 2021 and 2022, respectively. The fair value in relation to investment/amount received under co-investment in web series and film without copyrights is generally estimated using the discounted cashflow method and based on market observable and unobservable inputs. The valuation may involve a significant degree of judgement and assumptions which are inherently uncertain. Any changes in the estimates and assumptions may lead to different valuation results and, in turn, changes in the fair value in relation to investment/amount received under co-investment in web series and film without copyrights. In addition, factors beyond our control, such as general economic conditions and regulatory environment, can significantly influence and cause adverse changes to the estimates and thereby cause the fair value to fluctuate. If the fair value in relation to investment/amount received under co-investment in web series and film without copyrights were to fluctuate, our results of operations may be materially and adversely affected.

If we fail to maintain our business relationship with Youku or if Youku loses its leading market position or popularity, our business, financial condition and results of operations could be materially and adversely affected.

During the Track Record Period, we mainly (i) provided production service for made-to-order web series of Youku Information; and (ii) licensed the broadcasting right of our revenue-sharing web series and web films to Youku Information. Youku Information, which operates Youku, one of the top five online video platforms, was our largest customer for the year ended 31 December 2021, our second largest customer for the year ended 31 December 2020 and 2022. Our revenue derived from Youku Information and its affiliates amounted to RMB45.8 million, RMB174.1 million and RMB53.0 million for the year ended 31 December 2020, 2021 and 2022, respectively, accounted for approximately 17.6%, 50.4% and 25.8% of our total revenue in the same periods, respectively. In addition, Youku Information is a consolidated entity of Alibaba Group, which is the ultimate holding company of Alibaba Pictures, of which SAC Finance is a wholly-owned subsidiary and Dongyang Alibaba is a consolidated subsidiary. Hence, Youku Information is an associate of Dongyang Alibaba, a substantial shareholder of Nicefilm Technology and SAC Finance, one of our [**REDACTED**] Investors. For details, see "Business – Relationship with Alibaba Group."

According to the Frost & Sullivan Report, Youku is one of the top five online video platforms and thus has a strong demand for production services and high-quality content provided by well-established web series and web films production companies like us. We have entered into various framework agreements for future cooperation with Youku, including (i) web film copyrights licensing framework agreement with Youku Information for licensing the broadcasting rights of our web films; (ii) made-to-order drama series production framework agreement with Youku Information for production of made-to-order drama series for Youku Information; (iii) revenue-sharing drama series licensing framework agreement with Youku Information for licensing the broadcasting rights of our revenue-sharing drama series; and (iv) original drama series framework agreement with Alibaba Beijing for licensing the broadcasting rights of our original drama series. For details, see "Continuing Connected Transactions."

To the extent we fail to maintain our business relationship with Youku on comparable contract terms or at all, we may have to attract another online video platform to procure our production services and the broadcasting rights of our web series and web films, which could materially and adversely affect our business, financial condition and results of operations. In the event that Youku loses its leading market position or becomes less attractive to audiences, leading to a significant decrease in its audience base and cash inflow, which in turn, would affect its budget in procuring our production services and the broadcasting rights of our web series and web films. As a result, our business, results of operations and prospects could be materially and adversely affected. Additionally, any negative publicity associated with Youku, or any negative development with respect to Youku's financial condition, maintenance of its platform infrastructure or compliance with legal or regulatory requirements in the PRC, would have an adverse impact on the attractiveness of its platform, which in turn would lead to a decrease in the procurement of our production services and the broadcasting rights of our web series and web films and would materially and adversely affect our business, results of operations and prospects.

We are exposed to investment and recoverability risk in relation to the co-investment arrangement.

We often enter into co-investment arrangements in respect of various business segments in our operation, including revenue-sharing web series, original web series, web films and theatrical films. Under the co-investment arrangements, we are generally required to make substantial capital contribution at early stage of our investment for the capital requirements for the making of the web series and web films. As at 31 December 2020, 2021 and 2022, our prepayment for investment in web series and films with copyrights was RMB15.0 million, RMB18.7 million and RMB20.7 million, respectively.

Despite the significant amount of prepayment made, the amount of our investment return under the capital-intensive co-investment arrangement would only be ascertained and payable to us after completion of the whole production and distribution process, which can be lengthy. The amount of the investment return depends largely on the number of views and duration of views by the audience, genre, script, production team, as well as the rating given by the online video platforms after their internal assessment. As such, it may not be possible to estimate our investment return for a particular project with certainty. In the event that the distribution performance of or the licensing fee received for the web series or films does not meet the expectation, and would not be sufficient to cover our investment amount, we may need to make provision for such amount of shortfall which may cause material adverse impact on our results of operations and financial condition.

We engage certain suppliers for the production process of our web series and web films and thus we may not have full control over the quality of the web series and web films we produce.

When we are responsible for the production of our web series and web films, we would assemble the professional cast and crew members for various functions of the filming. Therefore, we would need to engage service providers for different aspects of the production process, including but not limited to scriptwriters, directors, staffing solution providers, photographers, lighting, set design and decoration, costumes design, makeup studios, stunt coordination, actors, props design and transportation teams. For details, see "Business — Our Business Process". Although we would, making use of our experience and connections in the industry, select the service providers with suitable qualifications and experiences, we cannot assure you that the quality of work provided by the third-party service providers can always satisfy the required standard. If any service provider cannot deliver quality work up to our expectation or we fail to locate the service providers with suitable qualification and experience at all, the quality of our web series and web films may be adversely affected and thus we may fail to meet our commitments to our customers, which may lead to an adverse impact to our business reputation and operating results.

Any change in or discontinuation of preferential tax treatment or government grants that currently are or may be available to us in the future may have a material and adverse impact on our results of operations.

As stipulated in the Several Opinions of the State Council on Supporting the Construction of Kashgar and Horgos Economic Development Zones (《國務院關於支持喀什霍爾果斯經濟開發區建設的若干意見》) promulgated by the State Council on 30 September 2011, and the Notice of the MOF and the SAT on the Preferential Policies of Enterprise Income Tax in the Two Special Economic Development Zones of Kashgar and Horgos in Xinjiang (《財政部、國家稅務總局關於新疆喀什霍爾果斯兩個特殊經濟開發區企業所得稅優惠政策的通知》) promulgated by the MOF and the SAT on 29 November 2011, enterprises newly established in Xin Jiang Kashgar/Horgos special economic areas during the period from 2010 to 2020 could enjoy Enterprise Income Tax ("**EIT**") exemption for five years starting from the year in which the first revenue was generated. Kashgar Qingning and Nicefilm Film & Television enjoyed the benefit under the Catalogue of Income Tax Preferences for Enterprises of Materially Encouraged Industries in Difficult Areas of Xinjiang (《新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄》), and was entitled to such EIT exemption from 25 September 2019 to 24 September 2024 and from 1 January 2020 to 31 December 2025, respectively.

As stipulated in the Notice on Several Provisions on Preferential Policies for Investment Promotion in the Tibet Autonomous Region (Trial) (Zang Zheng Fa [2018] No. 25) (《西藏自治區招商引資優惠政策若干規定(試行)的通知》(藏政發[2018]25號)) (the "**No. 25**") printed and distributed by the Tibet Autonomous Region People's Government on 15 June 2018, enterprises engaged in industries in the Catalogue of Encouraged Industries in the Western Region (《西部地區鼓勵類產業目錄》) and whose income from principal businesses accounts for more than 70% of the total income of the enterprise shall be subject to the enterprise income tax rate of 15% for the western region development and the enterprise income tax of encouraged industries located in the western region shall be reduced or exempted from 1 January 2018 to 31 December 2020. As stipulated in the Several Provisions on Preferential Policies for Investment Promotion in the Tibet Autonomous Region (Zang Zheng Fa [2021] No. 9) (《西藏自治區招商引資優惠政策若干規定》 (藏政發[2021]9號)) printed and distributed by the Tibet Autonomous Region People's Government on 7 April 2021, from 1 January 2021 to 31 December 2030, enterprises engaged in industries in the Catalogue of Encouraged Industries in the Western Region (《西部地區鼓勵類產業目錄》) and whose income from principal businesses accounts for more than 60% (60% inclusive) of the total income of the enterprise shall be subject to the enterprise income tax rate of 15% for the western region development. Tibet Nicefilm engaged in industries in the Catalogue of Encouraged Industries in the Western Region (《西部地區鼓勵類產業目錄》), and was entitled to such EIT benefit from 1 January

2019 to 31 December 2030. According to the No. 25, for cultural enterprises and projects providing cultural products and services in nine types of industries, including the broadcasting and film industry, they are exempt from the local part of enterprise income tax from 1 January 2018 to 31 December 2021. Tibet Nicefilm was entitled to such EIT exemption from 1 January 2019 to 31 December 2021.

For the years ended 31 December 2020, 2021 and 2022, we recorded government grants of RMB1.4 million, RMB1.9 million and RMB1.4 million, respectively, in our consolidated statements of profit or loss and other comprehensive income. For more information, see "Financial Information – Description of Major Components of Our Results of Operations – Other Income and Gains." These government grants have been given at the discretion of the local government authorities.

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

We have a limited operating history, which may make it difficult to evaluate our prospects.

Established in 2016, we have a limited operating history. During the Track Record Period, we experienced continuous and rapid growth in our revenue and profit and total comprehensive income. Nevertheless, our short operating history makes it difficult to assess our future prospects or forecast our future results. The risks and challenges we might face involve our abilities to, among other things, complete and/or release our on-going web series and web films on schedule, develop suitable concepts as well as quality scripts to produce new web series and web film projects, enhance and maintain the value of our brand, develop and maintain relationships with our suppliers, customers and business partners, in particular, top online video platforms and members of the NICE Partner Alliance, successfully compete with other market players and continue to attract, retain and motivate skilled employees.

In addition, the execution of our business strategies and future plans is also expected to require management's attention and efforts and incur additional expenditures. There is no assurance that we will be able to successfully implement our business strategies or future plans, and any failure to do so may have an adverse effect on our business and results of operations.

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

In this document, we have disclosed our project pipeline with details such as the status as of the Latest Practicable Date and the expected date of broadcasting. For details, see "Business – Our Web Series in the Pipeline" and "Business – Our Web Films in the Pipeline." The project description, expected broadcasting time and other information related to our pipeline projects represent our best efforts to describe their status as of 31 December 2022 or the Latest Practicable Date, as applicable. However, such information may prove to be different from actual outcomes due to the following factors:

- we may not be able to enter into definitive agreement to produce and/or distribute projects that have completed production;

- projects that we have completed production may not be distributed on time, or if they are, they may not be broadcast on time, both of which will affect the timing of recognition of revenue;

- we may not have signed any co-investment agreements, and other agreements in relation to the production and distribution of the pipeline projects as of the Latest Practicable Date, and our signed definitive agreements may not be fully performed in accordance with their terms, or may be amended, modified, altered, terminated, or cancelled;

- the genre, content or length of the pipeline projects may be subject to change during the production, post-production or regulatory review stages;

- the expected broadcasting time may be subject to change as a result of a delay in the production or distribution process or the broadcasting schedule of our customers; and

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

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

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

We believe that maintaining and enhancing our brand is critical to our relationships with our business partners, customers and suppliers. To the extent our web series and web films are considered low-quality or not appealing, our brand perception may be adversely impacted.

We are not directly involved in certain pre-production, filming or post-production activities of the web series and web film production process. Instead, we rely on the cast and filming and production crew to maintain their quality of performance and services. In addition, as there are no objective standards to assess the quality of a particular web series and web film, when we are involved in the production process, there is no assurance that the quality of the content we produce will meet the requirements and expectations of the distribution channels and audiences. Any failure to do so may have a negative impact on our reputation and our ability to maintain relationships with them, which in turn may have a material and adverse effect on our business and results of operations.

Furthermore, negative publicity, whether or not justified, involving us, our management, our business partners or our industry may harm our brand. In particular, given the nature of the entertainment and media industry, we are more exposed and susceptible to negative publicity. Damage to our reputation and our brand may reduce demand for our content and have a material and adverse effect on our business, results of operations and financial condition. Moreover, any attempt to rebuild our reputation and restore the value of our brand may be costly and time consuming, and such efforts may not ultimately be successful.

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

Our success depends on the continuous and collaborative efforts of our senior management team and other key employees, including those from production and distribution departments, with regards to their familiarity with our business operations and their experience, expertise and influence in the entertainment and media industry in the PRC. In particular, we rely on the expertise, experience and leadership of Ms. Zhang, our executive Director and chief executive officer, with over 15 years of relevant experience in entertainment and media industry, Mr. Zhong, our Executive Director, and other key management.

Competition for competent candidates in the industry is intense and the pool of competent candidates is limited. If we lose the services of one or more of our key personnel, we may not be able to find suitable or qualified replacements easily or at all and may incur additional expenses to recruit and train new personnel. Consequently, our business could be severely disrupted, the implementation of our business strategies could be delayed, and our financial condition and results of operations could be materially and adversely affected.

In addition, if any member of our key personnel joins a competitor or forms a competing business, we may lose crucial technological know-how, business secrets, customers and other valuable resources. Each of our key personnel has entered into a confidentiality and non-compete agreement with us. We cannot assure you, however, the extent to which any of these agreements will be enforceable under the applicable laws. See "– Risks Relating to the PRC – There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations."

We may not be able to provide production services or license the broadcasting rights of our web series and web films to our customers in a timely manner or at all, which may subject us to refund of the production fees or licensing fees we receive from our customers in advance.

We derived a large portion of revenue from licensing of the broadcasting rights of our revenue-sharing web series, original web series and web films and provision of production services with regards to made-to-order web series during the Track Record Period. Generally online video platforms may pay us part of the licensing fees for revenue-sharing web series, original web series and web films and part of the production services fees for made-to-order web series, both in advance, subject to the delivery of broadcasting materials or production services. The delivery of the broadcasting materials or production services of our web series and web films to our customers may be disrupted by unforeseeable events, such as outbreak of contagious diseases, occurrence of force majeure events, regulatory changes and/or natural disasters. In the event we are unable to successfully render the production services or the broadcasting rights of our web series to our customers in the future, we may be subject to claims to refund a portion or all of our production fees or licensing fees, which could materially and adversely affect our business, results of operations and financial condition.

We may not fully recover our prepayments and prepayments for investment in web series and films with copyrights, which may affect our business, results of operations, financial condition and prospects in the future.

During the Track Record Period, we recorded prepayments and prepayments for investment in web series and films with copyrights. Our prepayments primarily represent production services fees, design and promotion fees we prepaid to the relevant third-party service providers. We recorded prepayments of RMB9.4 million, RMB4.1 million and RMB9.7 million as of 31 December 2020, 2021 and 2022, respectively. We recorded prepayments for investment in web series and films with copyrights of RMB15.0 million, RMB18.7 million and RMB20.7 million as of 31 December 2020, 2021 and 2022, respectively.

If our suppliers fail to provide qualified production services or promotion services to us in a timely manner or at all, we may be exposed to prepayment default risk. Also, if the web series and web films that we invest in are not successfully developed, produced or distributed or profitable, we may not be able to recover our prepayments for investment in web series and films with copyrights in part or in full, both of which may in turn materially and adversely affect our business and financial position. Moreover, any material adverse change to the business, results of operations or financial condition of our suppliers or co-investors may subject us to prepayment default risks and have an adverse impact on us. We cannot guarantee that we can fully recover our prepayments and prepayments for investment in web series and films with copyrights. Failure to recover these assets may materially and adversely affect our business, results of operations and financial position in the future.

We are exposed to inventory and web series and film copyrights risks and impairment on web series and film copyright if we are not able to license the broadcasting rights of our web series and web films according to our distribution plan.

Our inventories comprise made-to-order web series under production, while our web series and film copyrights mainly comprise licensed IP rights, web series and film copyrights investment, web series and film copyrights under production and web series and film copyrights completed. As of 31 December 2020, 2021 and 2022, our inventories amounted to approximately RMB111.9 million, RMB70.5 million and RMB128.7 million, respectively, representing approximately 22.6%, 14.4% and 23.9% of our total current assets, respectively. In addition, as of 31 December 2020, 2021 and 2022, our web series and film copyrights amounted to RMB182.7 million, RMB192.4 million and RMB110.4 million, respectively, accounting for 36.8%, 39.2% and 20.5% of our total current assets, respectively. For details, see "Financial Information — Discussion of Certain Key Balance Sheet Items — Inventories" and "Financial Information — Discussion of Certain Key Balance Sheet Items — Web Series and Film Copyrights".

In order to support our business operation and development, we have to maintain a sufficient pool of IP rights and scripts, as well as producing web series and web films on a continuous basis. However, whether (i) IP rights and scripts can be developed and produced into web series or web films; or (ii) the web series and web film in production can be distributed are subject to uncertainties, including but not limited to, the evolving market trends, the broadcasting schedule of online video platforms as well as regulatory or industry policies, which are beyond our control. As of 31 December 2020, 2021 and 2022, impairment losses on our web series and film copyrights amounted to RMB11.6 million, RMB5.6 million and RMB3.1 million, respectively. For details, see Note 19 of the Accountants' Report set out in Appendix I to this document. In the event that we overstock inventories and web series and film copyrights, we may be subject to the risk of inventory and web series and film copyrights obsolescence and required to incur impairment losses, which may have an adverse impact on our results of operations. As a result, our financial condition and results of operations could be materially and adversely affected.

We are subject to credit risk in relation to our trade receivables.

Our trade receivables primarily balances due from our customers, including online video platforms, third party investors and third party producers and distributors. As of 31 December 2020, 2021 and 2022, the carrying amount of our trade receivables was RMB54.2 million, RMB65.4 million and RMB121.5 million, respectively. Our number of trade receivables turnover days were 104.7 days, 64.1 days and 169.1 days respectively for the years ended 31 December 2020, 2021 and 2022. As of 31 December 2020, 2021 and 2022, our impairment on trade receivables amounted to RMB0.1 million, RMB1.7 million and RMB2.2 million, respectively.

Whether our customers will settle payment before the end of the credit period ranging from five to 180 days (for details, see "Business – Our Customers – Top customers.") granted by us is beyond our control. We cannot assure you that our customers will meet their payment obligations on time or in full, or that our trade receivable turnover days or our impairment on trade receivables will not increase. In the event that any of our customers fail to settle their trade receivables in full for any reason or they delay in making payments to our Group within the credit period, we may incur impairment losses and our results of operations and financial position could be materially and adversely affected.

We are subject to working capital risks as the production and distribution of web series and web films are lengthy and capital-intensive processes.

The production and distribution of web series and web films require substantial capital and may require significant time between the commencement of production and the initial broadcasting. A significant amount of time may elapse between our operating expenditure and the cash inflow after distribution of such web series and web films. As of the Latest Practicable Date, we had 14 major web series and 18 major web films in our production pipeline. For more information, see "Business – Our Web Series in the Pipeline" and "Business – Our Web Films in the Pipeline." During the Track Record Period, we utilized bank and other borrowings, capital contributions from our Shareholders and cash generated from our operations to fund our web series and web film projects. However, there is no assurance that we will have sufficient cash flow or financial resources to fund our pipeline web series and web film projects. Any disagreement with, or discontinuation in the cooperation with, our co-investors may result in the delay, suspension or termination of the production of our web series and web films, which in turn may have a material and adverse effect on our business, reputation, results of operations and financial condition.

We recorded negative cash flows from operating activities during the Track Record Period and may be subject to liquidity risks, which could constrain our operational flexibility and materially and adversely affect our business, results of operations and financial condition.

We recorded negative operating cash flow of RMB19.3 million for the year ended 31 December 2021. Our operating cash outflows were primarily due to the increase in trade receivables, prepayments, other receivables and other assets, the decrease in other payables and accruals and income tax paid. For details, see "Financial Information – Liquidity and Capital Resources – Cash Flow – Operating Activities."

We cannot assure you that we will be able to generate positive cash flows from operating activities in the future. If we record net operating cash outflows in the future, our working capital may be constrained, which may adversely affect our financial condition. Our future liquidity mainly depends on our ability to maintain adequate cash inflows from our operating activities and adequate external financing. If we fail to obtain sufficient funding in a timely manner and on reasonable terms, or at all, our business, results of operations and financial condition may be materially and adversely affected.

We may be exposed to impairment on goodwill and other intangible assets arising from the changes in the business prospects of our acquisitions, which could adversely affect our results of operations and financial condition.

We recorded net carrying amount of goodwill of RMB15.3 million, RMB15.3 million and RMB15.3 million as of 31 December 2020, 2021 and 2022, respectively, in connection with our previous acquisition of Tianjin Rabbit Hole and Happen Pictures. We also recorded net carrying amount of other intangible assets of RMB0.2 million, RMB95,000 and RMB43,000 as of 31 December 2020, 2021 and 2022, respectively, in connection with our previous acquisition of Tianjin Rabbit Hole and Happen Pictures. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. We determine whether goodwill is impaired at least on an annual basis. Other intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the other intangible assets may be impaired. As of 31 December 2022, we did not record any impairment losses on goodwill or other intangible assets. However, if the recoverable amount of our goodwill or other intangible assets is less than their carrying amount and our goodwill or other intangible assets are therefore determined to be impaired in the future, we may be required to write down the carrying value or record a provision of impairment losses on goodwill or other intangible assets in our financial statements during the period in which our goodwill or other intangible assets are determined to be impaired, and this impairment may adversely affect our results of operations and our financial condition. For details, see Notes 2.4, 15 and 16 of the Accountants' Report set out in Appendix I to this document.

We may not be able to fulfill our obligation in respect of contract liabilities, which could adversely affect our results of operation and financial condition.

Our contract liabilities mainly represent short-term advances received for our provision of production services in respect of their made-to-order web series and script writing services and others. As of 31 December 2020, 2021 and 2022, we recorded contract liabilities of RMB142.5 million, RMB88.0 million and RMB141.2 million, respectively. Contract liabilities are recognized as revenue when we perform under the contracts, that is, transfer control of related goods or services to our customers. If we fail to fulfill our obligation under the contracts, we may need to refund a portion or all of our contract liabilities not yet recognized as revenue to our customers, which could expose us to the risk of shortfalls in liquidity and adversely affect our results of operation and financial condition.

We recorded non-recurring other income and gains during the Track Record Period. Such non-recurring income and gains may lead to significant fluctuations of our revenue and profitability, which could adversely affect our results of operation and financial condition.

We recorded gain from mediation of RMB13.1 million for the year ended 31 December 2020, which was non-recurring in nature. Such amount represents gain from the settlement of dispute with a co-investor. We entered into a co-investment agreement with such co-investor in 2016. Service fee and revenue sharing of RMB19.6 million in total was disputable between us and such co-investor. In 2020, as agreed by both parties, the co-investor waived the payment of RMB13.1 million from us, resulting a gain of RMB13.1 million. For details, see "Financial Information – Description of Major Components of Our Results of Operations – Other Income and Gains" and Note 5 of the Accountants' Report set out in Appendix I to this document. There is no guarantee that we will continue to record such non-recurring income and gains in the future, and hence our revenue and profitability could fluctuate significantly from period to period, which could have an adverse effect on our results of operation and financial condition.

The share of profits/(losses) of our associates may affect our investment accounted for using the equity method and our financial condition and results of operations.

Our share of profits/(losses) of investment accounted for using the equity method is primarily related to our equity investment in our associates. During the Track Record Period, the associates in which our investment accounted for using the equity method included Maitian Pictures and Shanghai Zhulong. For details, see Note 17 of the Accountant's Report set out in Appendix I to this document. Our share of profits/(losses) of associates for the year ended 31 December 2020, 2021 and 2022 amounted to RMB(0.3) million, RMB30,000 and RMB(0.3) million, respectively. If the performance of the associates deteriorates, the amount of our share of results of associates may decrease, and we may record share of losses of investments in associates, which may adversely affect our financial condition and results of operations.

In addition, our investments in associates are subject to liquidity risk. Our investments in associates are not as liquid as other investment products. If no dividend is declared by the associates we have invested in, even if profits are reported under the equity method, there is no cash flow until dividends from the associates are received. The lack of liquidity of our investment in such associates may significantly limit our ability to respond to adverse changes in the performance of such associates, which may also materially and adversely affect our financial condition and results of operations.

Our deferred tax assets may not be recovered.

As at 31 December 2022, our deferred tax assets amounted to RMB5.9 million, representing approximately 1.0% of our total assets. We periodically assess the probability of the realisation of deferred tax assets, using accounting judgments and estimates with respect to, among other things, historical operating results, expectations of future earnings and tax planning strategies. Deferred tax assets are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered. However, we cannot assure you that our expectation of future earnings will materialise, due to factors beyond our control such as general economic conditions or, negative changes in the regulatory environment. As a result, we may not be able to recover our deferred tax assets, which could have an adverse effect on our financial condition and results of operations.

Our share-based compensation represents payments to eligible employees, which may cause shareholding dilution to our existing Shareholders and negatively impact our financial performance.

We have adopted the [**REDACTED**] Share Option Scheme on [●] for the purpose of providing incentives and rewards to eligible participants who contribute to the success of our operations. For details, see the paragraph headed "D. Employee Incentive Scheme – I. [**REDACTED**] Share Option Scheme" in Appendix IV to this document. Our share-based compensation mainly represents our payments to eligible employees who render services as consideration for our equity instruments. Our share-based compensation expense was RMB20.0 million for the year ended 31 December 2020. To further incentivize our employees to contribute to our operations, we may grant additional share-based compensations in the future. Issuance of additional Shares with respect to such share-based payments may dilute the shareholding percentage of our existing Shareholders. Our expenses associated with share-based compensation may also increase substantially, which may have an adverse effect on our financial performance.

We are subject to risk of impairment losses with respect to prepayments for investment in web series and films with copyrights, which may affect our results of operations and financial condition.

There are uncertainties about the recoverability of our prepayments, other receivables and other assets which included, in particular, prepayments for investment in web series and films with copyrights. As of 31 December 2020, 2021 and 2022, we recorded prepayments for investment in web series and films with copyrights of RMB15.0 million, RMB18.7 million and RMB20.7 million, respectively. However, there is no guarantee that the amount of return would be sufficient to cover out investment amount and we are subject to recoverability or credit risk in relation to prepayments for web series and film with copyrights. We conduct an impairment analysis at the end of each of the Track Record Period on the recoverability of prepayments, other receivables and other assets based on, among others, our historical settlement records, our relationship with relevant counterparties, payment terms, current economic trends and to a certain extent, the larger economic and regulatory environment, which involve the use of various judgments, assumptions and estimates by our management. However, there is no assurance that our expectations or estimates will be accurate for the future, as we are not in control of all the underlying factors affecting such prepayments, other receivables and other assets. Therefore, if we are not able to recover the prepayments for web series and films with copyrights as scheduled, our results of operations and financial condition may be adversely affected.

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

We co-invest or co-produce web series and web films through co-investment arrangements with other industry players, such as producers and distributors of web series and web films, from time to time. While co-investment arrangements may provide various advantages, occasions may arise when we do not agree with the business goals or objectives of our co-investors or co-producers, or other factors may arise that make the continuation of the relationships unwise or untenable. Any such disagreements or discontinuation of our relationships with the co-investors or co-producers could disrupt our operations, or put assets dedicated to the co-investment arrangements at risk. If we are unable to resolve issues with co-investors or co-producers, we may need to terminate the co-investment arrangements. The unwinding of an existing co-investment arrangement could prove to be difficult or time-consuming, and the loss of revenue related to the termination or unwinding of a co-investment arrangement could adversely affect our results of operations. We cannot assure you that we will be able to maintain good relationships with our co-investors or co-producers.

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

As part of our business growth strategy, we may in the future invest in, merge with or acquire businesses that we believe can enhance our production or distribution capabilities and competitive position. Our ability to implement such strategy will depend on our ability to identify suitable targets, our ability to reach agreements with them on commercially reasonable terms and the availability of financing to complete any such investment, merger or acquisition, as well as our ability to obtain any required shareholder or government approvals. Our future strategic investments or mergers and acquisitions could subject us to uncertainties and risks, including but not limited to:

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

In addition, the assets or businesses we invest in, merge with or acquire may not generate results as we expect. There is no assurance that we will be able to effectively integrate the acquired business with our existing business, which would divert management and other resources. Furthermore, the acquired business may not achieve our expectations due to circumstances beyond our control, such as loss of key personnel. Our failure to address any of the above uncertainties and risks may have a material and adverse effect on our liquidity, financial condition and results of operations.

Legal disputes or proceedings may expose us to significant liabilities and materially and adversely impact our reputation.

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

If we become involved in material or protracted legal proceedings or other legal disputes in the future, we may incur substantial legal expenses. In addition, any of such proceedings or disputes, once occurred, could result in settlement or outcomes which may materially and adversely affect our financial condition and results of operations.

Our future development may be influenced by the overall development of online videos and the market trends in relation to the preferences of internet users, especially the emergence of short and streaming videos.

With the development of online videos in the PRC market, in addition to web series and web film, online videos in the form of short and streaming videos are also getting increasingly popular in China. According to the Frost & Sullivan Report, the increase in the penetration rate of online videos in the PRC market from 74.5% to 94.4% from 2016 to 2021 was mainly due to the increasing prevalence of short videos. The number of internet users watching short videos was 648.0 million in 2016 and climbed to 974.7 million in 2021. In view of the recent market trends, there is no assurance that the performance of web series and web films would not be affected by the emergence of short and streaming videos. If consumers' preferences shift more towards online videos of shorter form, the number of viewers of web series and web films may decrease, which may reduce the demand for our products and services, reduce our revenue and limit our profitability and/or subject us to additional liabilities.

Our success depends substantially on the general prospect and development of China's overall media industry, and factors affecting the media industry, especially the development of the web series and web films market, could have a material and adverse effect on our business, financial condition and results of operations.

Our business is subject to the general prospect and development of the overall entertainment industry in the PRC, which may fluctuate significantly from time to time. According to the Frost & Sullivan Report, the market size of the media industry in the PRC grew from RMB1,686.1 billion in 2016 to RMB2,866.0 billion in 2021, representing a CAGR of 11.2%, and is expected to further grow to RMB4,319.0 billion in 2026, representing a CAGR of 8.5% from 2021 to 2026. Such growth may not sustain in future periods, and is subject to various factors beyond our control, including the general economic conditions, people's leisure time, spending power and demand for media entertainment, and changes and uncertainties of relevant laws, rules and regulations, none of which can be predicted with certainty. In addition, while the revenue of web series industry in the PRC increased dramatically from RMB3.2 billion in 2016 to RMB14.5 billion in 2021, representing a CAGR of 35.0%, the growth is expected to slow down to a CAGR of 7.9% from 2021 to 2026. The fast growth of the web series market in the PRC has slowed down since the promulgation of "Notice about Upgrading the Information Recording Filing System of the Internet Audio-visual Programme" (《關於網絡視聽節目信息備案系統升級的通知》) in 2018, which requires more filing requirements in respect of web series. For details, see "Regulatory Overview – IV. Regulations in relation to Production and Filing of Internet Audio-Visual Programme – Planned Filing and Online Filing System." In addition, the revenue of web film industry increased from RMB1,000.0 million in 2016 to approximately RMB1,900.0 million in 2021, representing a CAGR of 13.7%, but the growth is expected to slightly decrease to a CAGR of 8.0% from 2021 to 2026 mainly due to the trend of "quality upgrading and quantity reduction" (提質減量) in the web film market. Any fluctuation or downturn in the overall development of the media industry, particularly the web series and web films market in the PRC may reduce demand for our drama series and thus materially and adversely affect our business, financial condition and results of operations.

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

Due to technological advances and upgrades, acts of piracy and copyright infringement are prevalent in many parts of the world as well as the PRC, which is primarily due to (i) technological advances allowing unauthorized download of web series and web films; (ii) the availability of digital copies of web series and web films; and (iii) the difficulty in enforcing intellectual property rights in the PRC. This trend facilitates the creation, transmission and sharing of unauthorized copies of web series and web films. The reproduction of unauthorized copies of our products may result in the loss of audience and have a negative impact on the viewing numbers and box office on the online video platforms, and in some cases, reduce our share of revenue, which may materially and adversely affect our business and results of operations.

If we fail to source quality and suitable IP rights or to protect our existing IP rights or copyrights, our reputation, business, financial condition and results of operations may be negatively impacted.

As IP rights are often adopted for development of web series and web films, we are required to source quality and suitable IP rights from time to time for our business development. We have designated manpower responsible for planning and development of our products and services to look for appropriate IP rights taking into account of the popular concept and genre, market trends and historical market data. Nonetheless, there is no assurance that our planning and development team can always successfully procure suitable IP rights. If we fail to source quality IP rights, the popularity and reception of our web series and web films may be lowered accordingly and this can lead to an adverse effect on our business and results of operation.

The substantial part, if not all, of our work is subject to IP or copyrights, given that our products are heavily based on creativity and artistic talents. As such, we adopt various measures to protect our IP rights or copyrights as we believe they are vital to our business operations. However, there is no assurance that our protective measures in respect of our IP right or copyrights would be fully comprehensive. Any unauthorised use of our IP rights or copyrights of web series or web films by third parties could diminish the value of our product which in turn affect our reputation, business, financial performance and results of operation.

Further, due to our business nature we are also exposed to risk that a third party may successfully challenge our ownership, or right to use the relevant IP rights or copyrights, especially those relating to the creative content of our products. Any such claims or disputes may result in prolonged legal proceedings, and may incur significant legal costs. Any such claim or litigation, with or without merit, could be costly and if we fail to successfully defend against such claim or do not prevail in such litigation, we could be required to pay damages, which may lead to a material negative impact on our financial conditions. Such proceedings may also divert our management's attention from our business and cause us to incur substantial costs. Our business, financial condition, results of operations and growth prospects could be adversely affected if we fail to adequately safeguard our IP rights or copyrights, or to successfully defend ourselves from infringement claims.

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

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

Our business performance, financial condition and results of operations may be adversely affected by the outbreak of COVID-19 and the occurrence of any force majeure events, natural disasters, acts of war or other outbreaks of contagious diseases in the PRC.

Since December 2019, the outbreak of new novel strain of coronavirus, namely COVID-19 has caused significant disruptions to the global economy. The outbreak has caused the PRC government to implement various measures to contain the spread of COVID-19. These measures, among others, including travel bans and restrictions, mandatory quarantine requirements, lock-down orders and business limitations and shut downs, have been lifted gradually as the pandemic began to be alleviated. Given that the pandemic may be subject to future changes and the PRC governmental authorities may tighten the measures at any time in response to ever-changing COVID-19 situation, the filming and production schedule of our forthcoming web series and web films may be disrupted or delayed in the future.

In addition to COVID-19, any occurrence of force majeure events, natural disasters such as earthquakes, tornadoes, floods and droughts, acts of war, or other outbreaks of contagious diseases or epidemics such as avian influenza, swine influenza, severe acute respiratory syndrome (SARS) or Middle East respiratory syndrome coronavirus (MERS-CoV) may disrupt the production of our web series and web films and normal social activities, and thus may have a material and adverse effect on the production, distribution and broadcasting schedules of our web series and web films.

If any of the production crew or cast members of our web series and web film or our employees become infected with COVID-19 or other contagious diseases, the affected filming sets or our office may be placed in mandatory quarantine and may also have to be closed for disinfection, which could negatively impact our daily operation. The development of pandemic and force majeure events is beyond our control and our business operations, financial conditions and results of operations could be adversely impacted as a result.

We maintain limited insurance coverage which may not cover all business risks.

We cannot assure you that our insurance coverage will be sufficient or available to cover all damage, liabilities or losses we may incur in the course of our business. Currently we carry insurance covering risks including injury insurance and third-party liability insurance for the actors and/or filming and production crew and property insurance for our machinery and equipment used for production of web series and web films such as drones. However, we do not carry liability insurance that extends coverage to all potential liabilities that may arise in the ordinary course of our business, neither do we maintain any insurance coverage for business interruption due to limited coverage of any business interruption insurance in China. If we are held responsible for any damages, liabilities or losses that are not covered or insufficiently covered by our insurance policies, our business, financial condition, results of operations and growth prospects could be adversely affected.

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

The fair value measurement of our convertible redeemable preferred shares is subject to significant uncertainties and risks, and changes in such fair value may affect our financial performance. Our convertible redeemable preferred Shares are classified as financial liabilities measured at fair value through profit or loss. The fair value measurement of our preferred shares involves estimates and assumptions that are subject to significant uncertainties and risks.

The convertible redeemable preferred shares issued by our Group are not traded in an active market and the respective fair value is determined by using valuation techniques. Our Group applied the market approach – backsolve method to determine the underlying equity value of our Company and adopted the option-pricing method and equity allocation model to determine the fair value of the convertible redeemable preferred shares. Key assumptions such as the timing of the liquidation, redemption or the liquidation event as well as the probability of the various scenarios were based on our Group's best estimates. Should any of the estimates and assumptions change, it may lead to changes in the fair value of financial liabilities at fair value through profit and loss. In addition, the valuation methodologies may involve a significant degree of management judgment and are inherently uncertain, which may result in material adjustment to the carrying amounts of certain liabilities and in turn may materially and adversely affect our results of operations.

As of 31 December 2020, 2021 and 2022, the fair value of convertible redeemable preferred shares was RMB90.1 million, RMB108.2 million and RMB98.7 million, respectively. The losses or gains of fair value change from convertible redeemable preferred shares represent changes in the fair value of our preferred shares. We recorded a loss on fair value change of RMB10.1 million and RMB18.1 million for the year ended 31 December 2020 and 2021 while we recorded net investment profit from co-investment of web series and films of RMB9.5 million for the year ended 31 December 2022 all of which take into account exchange gains or losses. We expect to continue to recognize the fair value changes of the preferred shares after 31 December 2022 up to the Listing Date, which may be a loss. After the automatic conversion of all preferred shares into Shares upon the Listing, we do not expect to recognize any further loss or gain on fair value changes from preferred shares in the future.

RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

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

Pursuant to the current PRC laws and regulations, certain restrictions and prohibitions on foreign ownership of companies that engage in the web series, web films and other related businesses are imposed. In particular, under the Negative List, investment in "radio and television program production and operation enterprises" is prohibited. For details, see "Regulatory Overview — I. Regulations in relation to Foreign Investment".

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

(3) Foreign Investors investing in new projects in the PRC alone or collectively with other investors; and (4) Foreign Investors investing through other ways prescribed by laws and regulations or the State Council. For details, see "Regulatory Overview — I. Regulations in relation to Foreign Investment".

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

In the opinion of our PRC Legal Advisor, (i) the ownership structures of our Company, WFOE and our Consolidated Affiliated Entities are in compliance with existing PRC laws and regulations, (ii) the Contractual Arrangements are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect, and (iii) the business operations of our Company, WFOE and our Consolidated Affiliated Entities, as described in this document, had been in compliance with existing PRC laws and regulations, including the FIL, in all material aspects during the Track Record Period and up to the Latest Practicable Date. There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. The relevant PRC regulatory authorities have broad discretion in determining whether a particular contractual structure violates PRC laws and regulations. Particularly, the FIL stipulates that foreign investment includes "Foreign Investors investing in the PRC through many other methods under laws, administrative regulations or provisions prescribed by the State Council." We cannot assure you that Contractual Arrangements will not be deemed as a form of foreign investment under laws, regulations or provisions prescribed by the State Council in the future, as a result of which, it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and the impact on the above-mentioned Contractual Arrangements. Thus, we cannot assure you that the PRC government will not ultimately take a view contrary to the opinion of our PRC Legal Advisor. If the PRC government finds that the Contractual Arrangements do not comply with its restrictions or prohibitions on foreign investment in businesses in the Negative List, or the Contractual Arrangements are determined as illegal or invalid by the PRC government, or if the PRC government otherwise finds that we, WFOE or any of our Consolidated Affiliated Entities are in violation of PRC laws or regulations or lack the necessary permits or licenses to operate our business, the relevant PRC regulatory authorities, including the MOFCOM, NDRC, CSRC and NRTA, would have broad discretion in dealing with such violations or failures, including, without limitation:

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

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

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

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

The Contractual Arrangements are intended to provide us with effective control over our Consolidated Affiliated Entities and allow us to obtain economic benefits from them. For details, see "Contractual Arrangements".

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

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

We do not have priority pledges and liens against the assets of our Consolidated Affiliated Entities. If our Consolidated Affiliated Entities undergo an involuntary liquidation proceeding, third-party creditors may claim rights to some or all of their assets and we may not have priority against such third-party creditors on the assets of our Consolidated Affiliated Entities. If our Consolidated Affiliated Entities liquidate, we may take part in the liquidation procedures as a general creditor under the PRC Enterprise Bankruptcy Law (《中華人民共和國企業破產法》) and recover any outstanding liabilities owed by our Consolidated Affiliated Entities to WFOE under the applicable service agreement.

The Contractual Arrangements provide that the shareholders of Nicefilm Technology are prohibited from voluntarily liquidating our Consolidated Affiliated Entities without obtaining our prior consent. In addition, under the Contractual Arrangements, the shareholders of Nicefilm Technology do not have the right to issue dividends to themselves or otherwise distribute the retained earnings or other assets of Nicefilm Technology without our consent. In the event that the shareholders of Nicefilm Technology initiate a voluntary liquidation proceeding without our authorization or attempt to distribute the retained earnings or assets of Nicefilm Technology without our prior consent, we may need to resort to legal proceedings to enforce the terms of the Contractual Arrangements. Any such legal proceeding may be costly and may divert our management's time and attention away from the operation of our business, and the outcome of such legal proceeding will be uncertain.

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

The PRC Foreign Investment Law (《中華人民共和國外商投資法》), which was promulgated by National People's Congress on 15 March 2019, took effect on 1 January 2020. On 26 December 2019, the State Council of the People's Republic of China published Implementation Rules of the Foreign Investment Law of the People's Republic of China (《中華人民共和國外商投資法實施條例》). Given that these rules are relatively new, substantial uncertainties exist in relation to their interpretation and implementation. The Foreign Investment Law does not explicitly classify whether variable interest entities that are controlled through contractual arrangements would be deemed as foreign invested enterprises if they are ultimately "controlled" by foreign investors. However, it has a catch-all provision under definition of "foreign investment" that includes investments made by foreign investors in China through other means as provided by laws, administrative regulations or the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions of the State Council to provide for contractual arrangements as a form of foreign investment, at which time it will be uncertain whether our Contractual Arrangements will be deemed to be in violation of the market access requirements for foreign investment in the PRC and if so, how our Contractual Arrangements should be dealt with.

The Foreign Investment Law grants national treatment to foreign-invested entities, save for those foreign-invested entities that operate in industries specified as either "restricted" or "prohibited" from foreign investment in the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2021) (《外商投資准入特別管理措施(負面清單)(2021版)》) published by the State Council of the People's Republic of China on 27 December 2021 and came into effect on 1 January 2022. The Foreign Investment Law provides that foreign-invested entities shall not invest in "prohibited" industries and shall meet the investment conditions stipulated under the negative list for any "restricted" industries. If our control over our Consolidated Affiliated Entities through the Contractual Arrangements are deemed as foreign investment in the future, and any business of our Consolidated Affiliated Entities is "restricted" or "prohibited" from foreign investment under the "negative list" effective at the time, we may be deemed to be in violation of the Foreign Investment Law, the contractual arrangements that allow us to have control over our Consolidated Affiliated Entities may be deemed as invalid and illegal, and we may be required to unwind such contractual arrangements and/or restructure our business operations, any of which may have a material and adverse effect on our business operation.

Furthermore, if future laws, administrative regulations or provisions mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure and business operations.

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

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

The equity transfer may be subject to approvals from and filings with the MOFCOM and SAMR and/or their local counterparts. In addition, the equity transfer price may be subject to review and tax adjustment with reference to its market value by the relevant tax authority. The shareholders of Nicefilm Technology will pay the equity transfer price they receive to WFOE or its designated person(s) under the Contractual Arrangements. The amount to be received by WFOE may also be subject to EIT, in which case such tax amounts could be substantial.

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

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

RISKS RELATING TO THE PRC

Changes in PRC economic, political and social conditions and government policies may continue to affect our business and prospects.

All of our operations, business, assets and revenues are located in 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 China generally and by continued economic growth in China as a whole. The PRC government regulates the economy and the industries by imposing industrial policies and regulating the PRC's macro economy through fiscal and monetary policies.

The Chinese economy may have many differences compared to the economies of most developed countries in many respects, which mainly include the involvement of government, level of development, growth rate, control of foreign exchange and allocation of resources. Although the Chinese government has taken measures that could enhance the utilization of market forces for economic reform, meanwhile reducing the state ownership of productive assets and the establishing the improved corporate governance in business enterprises, a substantial portion of productive assets in China may still be owned by the government. Further, the Chinese government may still be able to impose industrial policies so as to regulate the industry development. The Chinese government may also have significant control over China's economic growth by allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

The performance of our Group has been and would be continue to be under the affection of China's economy, which in turn may be influenced by the global economy. The uncertainties of the global economy and the political environment in various regions of the world would continue to influence China's economic growth. Due to the significant growth of Chinese economy over the past decades, growth could be uneven among different geographical sectors and among various economic sectors.

We may be required to obtain prior approval or subject to filings or other requirements from the CSRC or other PRC regulatory authorities for the [REDACTED].

On 17 February 2023, the CSRC promulgated the Overseas Listing Trial Measures and relevant five guidelines, which will become effective on 31 March 2023.

The Overseas Listing Trial Measures will regulate both direct and indirect overseas [**REDACTED**] and [**REDACTED**] of PRC domestic companies' securities by adopting a filing-based regulatory regime. If an [**REDACTED**] makes an initial overseas [**REDACTED**] or [**REDACTED**], it shall file a record with CSRC within 3 working days after the issuance and [**REDACTED**] application documents are submitted overseas. If the [**REDACTED**] issues [**REDACTED**] in the same overseas market after the issuance and [**REDACTED**] overseas, it shall file a record with CSRC within 3 working days after the completion of the [**REDACTED**].

The Overseas Listing Trial Measures provides that an overseas [**REDACTED**] or [**REDACTED**] is explicitly prohibited, if any of the following: (i) such securities [**REDACTED**] and [**REDACTED**] is explicitly prohibited by provisions in laws, administrative regulations and relevant state rules; (ii) the intended securities [**REDACTED**] and [**REDACTED**] may endanger national security as reviewed and determined by competent authorities under the State Council in accordance with law; (iii) the domestic company intending to make the securities [**REDACTED**] and [**REDACTED**], or its controlling shareholder(s) and the actual controller, have committed relevant crimes such as corruption, bribery, embezzlement, misappropriation of property or undermining the order of the socialist market economy during the latest three years; (iv) the domestic company intending to make the securities [**REDACTED**] and [**REDACTED**] is currently under investigations for suspicion of criminal offenses or major violations of laws and regulations, and no conclusion has yet been made thereof; or (v) there are material ownership disputes over equity held by the domestic company's controlling shareholder(s) or by other shareholder(s) that are controlled by the controlling shareholder(s) and/or actual controller.

The Overseas Listing Trial Measures also provides that if the [**REDACTED**] both meets the following criteria, the overseas securities [**REDACTED**] and [**REDACTED**] conducted by such [**REDACTED**] will be deemed as indirect overseas [**REDACTED**] by PRC domestic companies: (i) 50% or more of any of the [**REDACTED**]'s operating revenue, total profit, total assets or net assets as documented in its audited consolidated financial statements for the most recent fiscal year is accounted for by domestic companies; and (ii) the main parts of the [**REDACTED**]'s business activities are conducted in mainland China, or its main place(s) of business are located in mainland China, or the majority of senior management staff in charge of its business operations and management are PRC citizens or have their usual place(s) of residence located in mainland China. Where an [**REDACTED**] submits an application for [**REDACTED**] to competent overseas regulators, such [**REDACTED**] must file with the CSRC within three business days after such application is submitted. The Overseas Listing Trial Measures also requires subsequent reports to be filed with the CSRC on material events, such as change of control or voluntary or forced [**REDACTED**] of the [**REDACTED**] who have completed overseas [**REDACTED**] and [**REDACTED**].

On the same day, the CSRC issued the Notice on the Administrative Arrangements for the Filing of Overseas Listings by Domestic Enterprises. The CSRC clarified that on the effective date of the Overseas Listing Trial Measures (i.e. 31 March 2023),the domestic enterprises that have mentioned a valid overseas [**REDACTED**] application and have not received the consent of the overseas regulator or overseas stock exchange may reasonably arrange the timing of filing the application and should complete the filing before the overseas [**REDACTED**] and [**REDACTED**].

Based on the foregoing, our PRC Legal Advisers are of the view that we will be required to complete the filing procedures with the CSRC in connection with the overseas [**REDACTED**].

We cannot assure you that we could meet such requirements, complete such filing in a timely manner. Any failure may restrict our ability to complete the proposed [**REDACTED**] or any future equity capital raising activities, which would have a material adverse effect on our business and financial positions. However, as the Overseas Listing Trial Measures was recently promulgated, there remains substantial uncertainties as to its interpretation and implementation and how it may impact our ability to raise or utilize fund and business operation.

We are likely to be classified as the "PRC resident enterprise" under PRC EIT law, therefore our profitability and the value of your investments maybe affected adversely.

According to the EIT Law and implementation rules, an enterprise incorporated outside of the PRC but with a "de facto management body" in PRC may also be classified as the resident enterprise of the PRC. The definition of "de facto management body" means the body that has actual overall management and control over the business, personnel, accounts and properties of an enterprise. In April 2009, July 2011 and January 2014, the SAT issued several circulars, which provide certain specific criteria for determining whether it is the "de facto management body" for foreign enterprises controlled by PRC enterprises. Although we are a corporation incorporated under the law of Cayman Islands, if the PRC tax authorities believes that we shall be classified as a PRC tax resident enterprise, we may still be subject to the enterprise income tax on our global income at the rate of 25%. Any such tax may materially and adversely affect our profits and then reduce the returns on your investment in our Shares.

Inflation in the PRC could materially and adversely affect our profitability and growth.

Since the economy of China has been experiencing significant growth in past decades, inflation may occur and labour costs may keep increasing. According to the statistics from National Bureau of Statistics of China, the year-on-year percentage change in the consumer price index in China was 2.5% from 2019 to 2020. The overall economy of the PRC and the average salary in the PRC are more likely to keep increasing, therefore future increases in China's inflation and the cost of labour is likely to affect our profitability and operations adversely.

PRC governmental control and restrictions on the convertibility of Renminbi may affect the value of your investment.

The PRC government imposes controls and restrictions on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. The majority of our income is received in Renminbi and shortages in the availability of foreign currencies may restrict our ability to pay dividends or other payments, or otherwise satisfy the foreign currency denominated obligations, if any. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE, by complying with certain procedural requirements. Approval from appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may, at its discretion, impose restrictions on access to foreign currencies for current account transactions and if this occurs in the future, we may not be able to pay dividends in foreign currencies to our Shareholders.

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

The value of the RMB against the Hong Kong dollars, the U.S. dollars and other currencies fluctuates, is subject to changes resulting from the PRC government's policies and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. It is difficult to predict how market forces or government policies may impact the exchange rate between the RMB and the Hong Kong dollars, the U.S. dollars or other currencies in the future.

The [**REDACTED**] from the [**REDACTED**] will be received in Hong Kong dollars. As a result, any appreciation of the RMB against the Hong Kong dollars may result in the decrease in the value of our [**REDACTED**] from the [**REDACTED**]. Conversely, any depreciation of the RMB may adversely affect the value of, and any dividends payable on, the Shares in foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. All of these factors could materially and adversely affect our business, financial condition, results of operations and prospects, and could reduce the value of, and dividends payable on, our Shares in foreign currency terms.

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

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

On March 30, 2015, the SAFE promulgated the "Notice on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises" (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the "SAFE Circular 19"), which took effect on June 1, 2015. SAFE Circular 19 launched a nationwide reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises and allows foreign-invested enterprises to settle their foreign exchange capital at their discretion, but continues to prohibit foreign-invested enterprises from using RMB funds converted from their foreign exchange capital for expenditures beyond their business scopes. On June 9, 2016, the SAFE promulgated the "Notice on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange" (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (the "SAFE Circular 16"). SAFE Circular 19 and SAFE Circular 16 continue to prohibit foreign-invested enterprises from, among other things, using RMB funds converted from their foreign exchange capital for expenditure beyond their business scope, investment and financing (except for securities investment or non-guaranteed bank products), providing loans to non-affiliated enterprises or constructing or purchasing real estate not for self-use. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer to and use in the PRC the [**REDACTED**] from this [**REDACTED**], which may materially and adversely affect our business, financial condition and results of operations.

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

The SAFE has promulgated several regulations that require PRC residents and PRC corporate entities to register with and obtain approval from local counterparts of the SAFE in connection with their direct or indirect offshore investment activities. The "Notice on Issues Relating to Foreign Exchange Control for Overseas Investment and Financing and Round tripping by Chinese Residents through Special Purpose Vehicles" (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), or the SAFE Circular 37, was promulgated by the SAFE in July 2014 and requires PRC residents or entities to register with SAFE or its local counterparts in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. These regulations apply to our Shareholders who are PRC residents and may apply to any offshore acquisitions that we make in the future.

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

We have requested PRC residents 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. However, we may not be fully informed of the identities of all our shareholders or beneficial owners who are PRC residents and, therefore, we may not be able to identify all our shareholders or beneficial owners who are PRC residents to ensure their compliance with Circular 37 or other related regulations. In addition, we cannot provide any assurance that all of our shareholders and beneficial owners who are PRC residents will comply with our request to make, obtain or update any applicable registrations or comply with other requirements required by Circular 37 or other related regulations in a timely manner. Failure by any such Shareholders to comply with Circular 37 or other related regulations could subject us to fines or legal sanctions, restrict our investment activities in the PRC and overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions, pay dividends or other payments to us or affect our ownership structure, which could materially and 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 "Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies" (《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》) (the "**SAFE Circular 7**"), which replaces 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 [**REDACTED**] company are required to register with SAFE or its local counterparts and complete certain other procedures. PRC residents who are also the participants of a stock incentive plan must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly [**REDACTED**] company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. Also, SAFE Circular 7 requires that PRC residents who participate in a share incentive plan of an overseas non-publicly-[**REDACTED**] special purpose company may register with SAFE or its local counterparts before they exercise the share options. We and our PRC employees who have been granted share options will be subject to these regulations upon the completion of this [**REDACTED**]. Failure of our PRC share option holders to complete their SAFE registrations may subject these PRC residents to fines of up to RMB300,000 for entities and up to RMB50,000 for individuals, and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiary, limit our PRC subsidiaries' ability to distribute dividends to us, or otherwise materially and adversely affect our business.

The SAT has also issued relevant rules and regulations concerning employee share incentives. Under these rules and regulations, our employees working in the PRC will be subject to PRC individual income tax upon exercise of the share options 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.

There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.

The majority of our operations are conducted in China, and are governed by PRC laws, rules and regulations. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but have limited precedential value.

In the late 1970s, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. There has been significant increase in the overall effect of legislation around the past four decades in the protections afforded to various forms of foreign or private-sector investment in China. Our subsidiaries are subject to various PRC laws and regulations generally applicable to companies in China. However, since these laws and regulations are relatively have not been enforced for a long time 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.

Certain judgments obtained against us by our shareholders may experience some difficulties in enforcement.

Although we are an exempted company incorporated in Cayman Islands, all our substantial assets and business operation are located in the PRC. On the other hands, all of our Directors and senior managements are nationals and residents of China and most of their assets are also located in the PRC. Therefore, it is less likely 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. The PRC has not entered into treaties or arrangements regarding the recognition and enforcement of judgments made by courts of most other jurisdictions. On July 14, 2006, Hong Kong and the PRC entered into the "Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned" (《最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the "**Arrangement**"). Under the Arrangement, where any designated PRC court or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil or commercial case under a choice of court agreement in writing, any party concerned may apply to the relevant PRC court or Hong Kong court for recognition and enforcement of the judgment. Therefore, if the parties in the dispute did not agree to enter into a choice of court agreement in writing, it may not be possible to enforce that judgment. As a result, it may be difficult or impossible for investors to effect service of process against certain of our assets or Directors in the PRC in order to seek recognition and enforcement of foreign judgments in the PRC.

RISKS RELATING TO THE [REDACTED]

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

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

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

The [**REDACTED**] of our Shares may be volatile and could fluctuate widely in response to many factors, some of which maybe beyond our control, including: our financial results, changes in securities analysts' estimates, if any, of our financial performance, general market conditions of the securities markets in Hong Kong, the PRC, the United States and elsewhere in the world and the performance and fluctuation of the [**REDACTED**] of other companies with business operations located mainly in the PRC that have [**REDACTED**] their securities in Hong Kong may affect the volatility in the [**REDACTED**] of and [**REDACTED**] volumes for our Shares. A number of PRC-based companies have [**REDACTED**] their securities, and some are in the process of preparing for [**REDACTED**] their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant [**REDACTED**] declines after their [**REDACTED**]. The [**REDACTED**] performances of the securities of these companies at the time of or after their [**REDACTED**] may affect the overall investor sentiment towards PRC-based companies [**REDACTED**] in Hong Kong and consequently may impact the [**REDACTED**] performance of our Shares. These broad market and industry factors may significantly affect the [**REDACTED**] and volatility of our Shares, regardless of our actual operating performance.

Because the initial public [REDACTED] per Share is higher than the net tangible book value per Share, purchasers of our Shares may incur immediate and substantial dilution in the [REDACTED] and may experience further dilution in the future.

As the [**REDACTED**] of our Shares is higher than the net tangible book value per Share immediately prior to the [**REDACTED**], purchasers of our Shares in the [**REDACTED**] will experience an immediate dilution in terms of the [**REDACTED**] net tangible book value. If the Sponsor-[**REDACTED**], on behalf of the [**REDACTED**], exercise the [**REDACTED**] or if we obtain additional capital in the future through equity [**REDACTED**], purchasers of our [**REDACTED**] may experience further dilution.

Substantial actual sales or future sales or the expectation of substantial sales of our Shares in the public market, especially by our Directors, executive officers and Controlling Shareholders may cause the [REDACTED] of our Shares to decline.

Sales of substantial amounts of Shares in the public market after the completion of the [**REDACTED**], especially by our Directors, executive officers and Controlling Shareholders, or the perception or anticipation of such sales could adversely affect the [**REDACTED**] of our Shares and could materially impair our future ability to raise capital through [**REDACTED**] of our Shares.

The Shares owned by our Controlling Shareholders are subject to certain lock-up periods. There can be no assurance that they will not dispose of these Shares following the expiration of the lock-up periods, or any Shares they may come to own in the future. We cannot predict what effect, if any, significant future sale will have on the [**REDACTED**] of our Shares.

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

We cannot guarantee whether and when we would pay dividends in the future.

During the Track Record Period and up to the Latest Practicable Date, save for a dividend of RMB2.5 million paid by Nicefilm Technology for the year ended 31 December 2022 (which was declared prior to the Track Record Period), no dividend has been proposed, paid or declared by our Company or by any of the subsidiaries of our Group. Distribution of dividends shall be at the discretion of our Board and subject to Shareholders' approval. Any declaration and payment as well as the amount of such dividends may depend on our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors may consider relevant. For details, see "Financial Information — Dividends." On the other hand, it would also be subject to our Articles of Association and the PRC laws or Cayman Islands laws, including (when required) the approvals from our shareholders and our Directors. As a result, there can be no assurance whether, when and in what manner we will pay dividends in the future.

Waivers have been granted from compliance with certain requirements of the Listing Rules by the Stock Exchange. 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. For details, 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 multijurisdictional compliance, all of which could adversely affect us and our Shareholders.

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

Our management may spend the [**REDACTED**] from the [**REDACTED**] in ways you may not agree with or that do not yield a favourable return to our shareholders. We plan to use the [**REDACTED**] from the [**REDACTED**] mainly (i) to fund the production of our web series and web films and investment in theatrical films; (ii) to fund potential investment in, or merger and acquisition of, companies that may enhance our market position and ramp up our web series and web films development, production and distribution capabilities; (iii) to acquire IPs to guarantee the stable growth of our web series and web films production and distribution; (iv) to strengthen our promotion and distribution capabilities; and (v) for working capital and general corporate purposes. For details, see "Future Plans and [**REDACTED**] — [**REDACTED**]." However, our management will have discretion as to the actual application of our [**REDACTED**]. You are entrusting your funds to our management, whose judgment you must depend on, for the specific uses we will make of the [**REDACTED**] from this [**REDACTED**].

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

Our corporate affairs are governed by, among other things, our Memorandum and Articles and the Companies Act and common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in other jurisdictions. This may mean that the remedies available to our minority Shareholders may be different from those available under the laws of Hong Kong or other jurisdictions. A summary of the constitution of our Company and the Cayman Islands Companies Act is set out in Appendix III to this document.

Facts and statistics in this document may come from various sources and may not be fully reliable.

Certain facts and statistics in this document, including, but not limited to, the information and statistics are derived from various publicly available publications of governmental agencies or Independent Third Parties, which our Directors believe to be reliable. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading.

However, we cannot guarantee the quality or reliability of the information from official government sources. Our Directors believe that we have taken reasonable care to ensure that the facts and statistics presented are accurately extracted and reproduced from such information. The information from official government sources has not been independently verified by us, the Joint Sponsors, the Sponsor-[**REDACTED**], [**REDACTED**], [**REDACTED**] and [**REDACTED**], [**REDACTED**], [**REDACTED**] or any other party involved in the [**REDACTED**] (except F&S) and no representation is given as to its accuracy. We, therefore, make no representation as to the accuracy or completeness of that information. You should not place undue reliance on them and you should consider how much weight or importance such information carry and should not place undue reliance on them.

Prospective investors should read the entire document carefully and we strongly caution you not to place any reliance on the information in any press article or other media coverage which contains information not being disclosed or which is inconsistent with the information included in this document.

There may be, subsequent to the Latest Practicable Date but prior to the completion of the [**REDACTED**], press and media coverage regarding us and the [**REDACTED**], which contained, among other things, certain financial information, projections, valuations and other forward-looking information about us and the [**REDACTED**]. We have not authorized the disclosure of any such information in the press or 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 in conflict with the information contained in this document, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this document only and should not rely on any other information.

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