SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM F-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

BlueCity Holdings Limited
(Exact name of Registrant as specified in its charter)

Not Applicable
(Translation of Registrant’s name into English)

Cayman Islands
(State or other jurisdiction of incorporation or organization) 7389
(Primary Standard Industrial Classification Code Number) Not Applicable
(I.R.S. Employer Identification Number)

Block 2 Tower B Room 028, No. 22 Pingguo Shequ, Bai Zi Wan Road, Chaya Yang District
Beijing 100022
People’s Republic of China
+86 10 5876-9855
(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

|||
(Not applicable)

[NAME, address, including zip code, and telephone number, including area code, of agent for service]

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3 Garden Road
Central, Hong Kong
+852-2514-7600

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.
☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.
☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.
☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.
☐

Emerging growth company ☒

If any of the securities being registered on this Form are being offered by an emerging growth company as defined in Rule 405 of the Securities Act of 1933.

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933.
Emerging growth company ☒

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 7(a)(2)(B) of the Securities Act.
☐

† The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

CALCULATION OF REGISTRATION FEE

<table>
<thead>
<tr>
<th>Title of each class of securities to be registered</th>
<th>Proposed maximum aggregate offering price(US$)</th>
<th>Amount of registration fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary shares, par value US$0.0001 per share(1)</td>
<td>US$</td>
<td>US$</td>
</tr>
</tbody>
</table>

(1) American depositary shares issuable upon deposit of ordinary shares registered hereby will be registered under a separate registration statement on Form F-6 (Registration No. 333- ). Each American depositary share represents ordinary shares.

(2) Includes ordinary shares that are issuable upon the exercise of the underwriters’ over-allotment option. Also includes ordinary shares initially offered and sold outside the United States that may be resold from time to time in the United States either as part of their distribution or within 40 days after the later of the effective date of this registration statement and the date the shares are first bona fide offered to the public. These ordinary shares are not being registered for the purpose of sales outside the United States.

(3) Estimated solely for the purpose of determining the amount of registration fee in accordance with Rule 457(o) under the Securities Act of 1933.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant files a further amendment which specifically states that this Registration Statement will thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement becomes effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.
This is an initial public offering of American depositary shares, or ADSs, of BlueCity Holdings Limited. Each ADS represents ordinary shares, par value US$0.0001 per share.

Prior to this offering, there has been no public market for the ADSs or our ordinary shares. We anticipate that the initial public offering price will be between US$ and US$ per ADS. We intend to apply to list the ADSs on the Nasdaq Global Market under the symbol “.”

We are an “emerging growth company” under applicable U.S. federal securities laws and are eligible for reduced public company reporting requirements.

**Investing in our ADSs involves risks. See “Risk Factors” beginning on page 14.**

Neither the United States Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

**PRICE US$ PER ADS**

| Initial public offering price | US$ | US$ |
| Underwriting discounts and commissions | US$ | US$ |
| Proceeds, before expenses, to us | US$ | US$ |

(1) For a description of compensation payable to the underwriters, see “Underwriting.”

The underwriters have an over-allotment option to purchase up to an additional ADSs from us at the initial public offering price, less the underwriting discounts and commissions, within 30 days from the date of this prospectus.

The underwriters expect to deliver the ADSs against payment in U.S. dollars in New York, New York on or about , 2020.

**UBS Investment Bank**

**CLSA**

**AMTD**

# BLUECITY

To provide a full suite of services to empower the LGBTQ community in their daily lives

## Largest Online LGBTQ Community

In China, India, Korea, Thailand and Vietnam in terms of average MAUs

<table>
<thead>
<tr>
<th>Feature</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registered users</td>
<td>44+ million</td>
</tr>
<tr>
<td>Registered user spanning</td>
<td>200+ countries &amp; regions</td>
</tr>
<tr>
<td>Average MAUs</td>
<td>5.9 million</td>
</tr>
<tr>
<td>Outside of China</td>
<td>&gt; 40% MAUs</td>
</tr>
<tr>
<td>Average daily time spent</td>
<td>60+ minutes</td>
</tr>
<tr>
<td>Average daily sessions</td>
<td>16+</td>
</tr>
</tbody>
</table>

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1. According to Frost & Sullivan Report, in 2019
2. As of December 31, 2019
3. In the three months ended December 31, 2019
4. In December 2019
BLUECITY

HOME for the LGBTQ Community to be themselves
SANCTUARY for members to express themselves in an uplifting community
Access to HEALTH AND WELLNESS services with privacy protection
Passegeway that enables the PURSUIT OF PARENTHOOD

Social Network
Engaging location and content-based services

Live Streaming
24 hour access to a wide variety of interactive content

He Health
Timely provision of health-related services

Public Interest
Internet + HIV awareness and prevention, and promotion of diversity

Bluedbaby
Personalized assisted reproduction consultation services enabling pursuit of parenthood
No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus or in any free writing prospectus we may authorize to be delivered or made available to you. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the ADSs offered hereby, and only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

Neither we nor any of the underwriters has done anything that would permit this offering or possession or distribution of this prospectus or any filed free writing prospectus in any jurisdiction where action for that purpose is required, other than in the United States. Persons outside the United States who come into possession of this prospectus or any free writing prospectus must inform themselves about, and observe any restrictions relating to, the offering of the ADSs and the distribution of this prospectus or any free writing prospectus outside of the United States.

Until , 2020 (the 25th day after the date of this prospectus), all dealers that buy, sell or trade ADSs, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.
PROSPECTUS SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements appearing elsewhere in this prospectus. In addition to this summary, we urge you to read the entire prospectus carefully, especially the risks of investing in our ADSs discussed under “Risk Factors,” before deciding whether to invest in our ADSs. This prospectus contains information from an industry report commissioned by us and prepared by Frost & Sullivan, an independent research firm, to provide information regarding our industry and our market position in China and globally. We refer to this report as the Frost & Sullivan Report.

The BlueCity Story: From One to 44 million

One Person

Our story started in the year of 2000, when our founder, Mr. Baoli Ma, a closeted policeman by the alias “Geng Le,” founded one of China’s first and most influential LGBTQ online forums, Danlan.org. Danlan.org is the predecessor of BlueCity, and Mr. Ma is our number one employee.

Homosexuality was removed from an official list of mental illness in China the next year.

Six Years

After secretly moderating Danlan.org every night for six years by himself, Mr. Ma was joined by a few devoted volunteers in 2006, and they put their hearts and souls into promoting social awareness and connectivity among the LGBTQ population.

For the many years that followed, Danlan.org carried on its public interest gene and made relentless efforts in promoting HIV awareness and prevention.

34 Employees

Resigned from his policeman position in 2011, Mr. Ma was determined to fully devote himself to social awareness activities for the LGBTQ population. BlueCity was officially founded in the same year with the launch of our mobile app Blued the year after, in 2012.

BlueCity started out with 34 employees and grew exponentially into a market leader in the increasingly active LGBTQ community and the associated “pink economy.”

44 Million Registered Users

From a one-man operation that started 19 years ago, BlueCity has evolved into a global gateway for the “coming out journey” of the LGBTQ population, encouraging them to be themselves, feel good about themselves, and embrace the community. We celebrate a registered user base of over 44 million on our Blued mobile app as of December 31, 2019. Blued’s average MAUs grew from 4.1 million in the three months ended March 31, 2018 to 5.9 million in the three months ended December 31, 2019.

Don’t blink. The best is yet to come.
A Snapshot of BlueCity Today

We have a large and active user base which primarily consists of LGBTQ persons in China and the rest of Asia, and we provide a full suite of services empowering LGBTQ persons in all aspects of their daily lives and addressing their pain points. As a central hub of BlueCity’s services and platforms, the Blued mobile app allows our users to connect with each other, express themselves, and access professional health related services and family planning services at their fingertips. With a long history of serving the LGBTQ community, we have an unparalleled understanding of their needs and concerns, and have developed service offerings specifically tailored to meet their lifetime needs:

- **Self-Identity and Sense of Belonging**
  BlueCity is a spiritual home for LGBTQ people, encouraging them to be themselves, feel good about themselves and embrace the community. This unique position strengthens our user engagement and stickiness. This develops a self-reinforcing virtuous cycle and helps our community grow stronger over time. According to the Frost & Sullivan Report, Blued was the first point of contact with the LGBTQ community for the majority of our users. In 2019, Blued had an average daily time spent per active user of over 60 minutes and average daily sessions per active user of over 16 times, according to the Frost & Sullivan Report. Blued had an average next-month retention rate of 71.0% in 2019.

- **Social Connection and Interaction**
  Through Blued we empower our users in their social life via a variety of location-based and content-based social networking services which facilitate dynamic and engaging interactions among members of our community. Our location-based social networking services cater to the diverse social needs of our users and enable them to conveniently connect with each other and expand relationships from online to offline. Our content-based social networking services seamlessly immerse our users into our large and robust global community and enable them to discover content that is interesting and relevant to them. We also provide a variety of membership services, including subscription-based membership services and pay-per-use functions, to further enhance their social networking experience.

- **Entertainment and Expression**
  Our platform is a safe and secure oasis for our users to express themselves in a positive, sanguine and uplifting community. Aside from content generated by users in their daily social activities, Blued enables users to live stream a wide variety of content and activities including talent shows, matchmaking shows, game shows, storytelling shows, comedy shows and casual chats between broadcasters and viewers. We have a talented and loyal broadcasters pool and share revenues generated from virtual gift sales with broadcasters through their agencies. We are committed to supporting our broadcasters and attracting new broadcasters to ensure a sustainable supply of high-quality streaming content on our platform.

- **Health and Wellness**
  Through our health platform He Health, we provide a wide variety of health-related services, primarily including HIV-related services and comprehensive men’s health services. We provide easy access to timely and professional HIV screening and prevention solutions and men’s health solutions, which include a wide variety of test-kits, medication and medical consulting services to be ordered at their fingertips. He Health is currently only available in China.

- **Pursuit of Parenthood**
  The pursuit of parenthood is a fundamental need and life goal of many members of our community. We offer family planning services through our Bluedbaby platform to Chinese customers, hand-holding them...
throughout the journey in cooperation with our assisted reproductive technology, or ART, services partners outside of China.

*Blued* is a world’s leading LGBTQ platform in terms of average MAUs in 2019, according to the Frost & Sullivan Report. We are the dominant leader in China. In 2019, we had average MAUs and average DAUs over six and nearly seven times that of the next largest player in China, respectively, according to the Frost & Sullivan Report. *Blued*'s average MAUs grew from 4.1 million in the three months ended March 31, 2018 to 5.9 million in the three months ended December 31, 2019. Leveraging our experience in China, we have successfully expanded into a number of overseas market and established a strong global presence. We are the largest online LGBTQ community in India, Korea, Thailand and Vietnam in terms of average MAUs in 2019, according to the Frost & Sullivan Report. We are rapidly expanding into new markets, and have users spanning over 200 countries and regions as of December 31, 2019. Despite our global footprint, approximately 3.4% and 6.6% of our total revenues for 2018 and 2019, respectively, were contributed by users outside China. We are still in the early stage of generating revenue from our users outside China and are continuing to introduce diversified service offerings to cater to their different needs. Users in countries and regions outside of China represented over 40% of our total MAUs in December 2019. Currently, *Blued* is primarily used by homosexual men, while all of our services are available to the LGBTQ population in general.

Leveraging our deep understanding of and broad connections with the LGBTQ community accumulated throughout the years since *Danlan.org*, we continuously conduct a wide variety of public interest initiatives related to the LGBTQ community primarily through *Danlan Public Interest*, BlueCity’s public interest arm. Empowered by our platform’s technologies and data traffic and our deep understanding of the LGBTQ community, we believe we were the first in China to introduce the concept of “Internet + HIV prevention” to integrate online and offline HIV prevention efforts in HIV testing, prevention education, academic research and volunteering. We are also committed to continuously promoting diversity and LGBTQ awareness around the world by organizing and participating in a wide variety of social events. For more information on our public interest initiatives, see “—Corporate Social Responsibility—Danlan Public Interest.”

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*Image of a diagram showing the structure of BlueCity, with circles labeled as Social networking, Live streaming, Public interest initiatives, Family planning, and Health related.*
Our Industry

The LGBTQ population, which for the purpose of this prospectus refers to the population who identify themselves as part of the LGBTQ community, was approximately 450 million in 2018 and is expected to grow to 591 million by 2023, representing 7.4% of the total population, compared to 5.9% of the total population in 2018, according to the Frost & Sullivan Report. According to the same report, the LGBTQ population in general has higher average disposable income than that of the general population. The LGBTQ population also tends to spend more across various categories, such as healthcare, recreation, clothing and footwear, dining out and food delivery, compared to the general population. These factors have all contributed to the rapid growth of the LGBTQ market, which is the sum of all consumer expenditures by the LGBTQ population and marketing expenditures towards the LGBTQ population, as defined by the Frost & Sullivan Report. The market size of the global online LGBTQ market was US$261.5 billion in 2018, and is expected to reach US$580.4 billion by 2023, representing a CAGR of 17.3%.

LGBTQ platforms provide products and services to the LGBTQ community including social and entertainment, online health consulting and online pharmacy, and assisted reproductive technology service. According to the Frost & Sullivan Report, the global LGBTQ online social and entertainment market had a total global revenue of US$2.7 billion in 2018, consisting of revenues from membership fees, advertising revenue and live streaming, and is expected to reach US$6.2 billion in 2023, representing a CAGR of 18.3%. China’s online health consulting and online pharmacy market was US$1.2 billion in 2018, representing a CAGR of 39.3% since 2014 and is expected to reach US$3.6 billion by 2023, representing a CAGR of 25.3%. The global ART consulting services market was US$167.4 million in 2018, representing a CAGR of 20.4% since 2014 and is expected to reach US$417.6 million in 2023, representing a CAGR of 20.1%. In 2018, 32.3% of the global ART consulting services market was contributed by Chinese customers seeking overseas ART services. This is expected to reach 41.6% by 2023.

Our Competitive Strengths

We believe our success to date is primarily attributable to the following key competitive strengths:

• world’s leading LGBTQ community;
• strong user engagement and stickiness driven by sense of belonging;
• proven capability to provide community-centric services;
• stringent privacy and security standards;
• culture of commitment to corporate social responsibility;
• proprietary and tailored technology infrastructure; and
• visionary founder leading an experienced management team.

Our Strategies

We intend to pursue the following strategies to further grow our business:

• solidify our leading position in existing markets;
• expand into new geographies;
• broaden product offerings to serve other sub-groups of the LGBTQ population;
• enhance monetization capabilities and further diversify our service offerings;
• explore strategic investment and acquisition opportunities;
• continue to strengthen our technological capabilities;
• strengthen our talent base; and
• continue to make positive social impact in China and globally.

Our Challenges
We face risks and uncertainties in realizing our business objectives and executing our strategies, including those relating to:
• retaining our existing users and acquiring new users;
• sustaining our rapid growth, effectively managing our growth, and implementing our business strategies;
• implementing our monetization strategies and generating sustainable revenues and profit;
• meeting the challenges presented by our increasingly international operations;
• complying with complex and evolving laws and regulations in the PRC and other countries and regions where we have business;
• developing and providing our users with new and innovative products and services;
• achieving and sustaining profitability;
• protecting our users’ privacy and data;
• legality, public policies, and sentiment regarding the LGBTQ community in the countries and regions where our services are available; and
• keep up with technological developments and evolving user expectations.

Please see “Risk Factors” and other information included in this prospectus for a discussion of these and other risks and uncertainties that we face.

Corporate History and Structure
In September 2011, Beijing BlueCity Culture and Media Co., Ltd., our VIE, a PRC domestic company, was established. We launched our mobile app Blued in 2012.

In December 2013, BlueCity Holdings Limited was established in the Cayman Islands as our offshore holding company to facilitate financing and offshore listing. In March 2014, BlueCity Holdings Limited established a wholly-owned subsidiary in Hong Kong, BlueCity Holdings Hong Kong Limited.

In 2014, BlueCity Holdings Hong Kong Limited established, Beijing BlueCity Information & Technology Co., Ltd., our WFOE, and we gained control over our VIE through our WFOE by entering into a series of contractual arrangements with our VIE and its shareholders. In June 2018, in order to reflect the change of shareholding of our VIE, we effected some restructuring of the equity ownership in our VIE, and a new series of contractual arrangements, whose terms are substantially the same with the previous contractual arrangements, were subsequently entered into by and among our WFOE, our VIE and our VIE’s shareholders. For more details and risks related to our variable interest entity structure, please see “—Contractual Arrangements with our Consolidated Affiliated Entity and Its Shareholders” and “Risk Factors—Risks Related to Our Corporate Structure.” As a result of our direct ownership in our WFOE and the variable interest entity contractual arrangements, we are regarded as the primary beneficiary of our VIE. We treat our VIE as our consolidated affiliated entity under U.S. GAAP, and have consolidated the financial results of our VIE in our consolidated financial statements in accordance with U.S. GAAP.
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The following diagram illustrates our corporate structure, including our significant subsidiaries and consolidated affiliated entities, as of the date of this prospectus:

![Corporate Structure Diagram]

Note:
(1) Mr. Baoli Ma, our founder and chief executive officer, and Mr. Changyou Ma, a family member of our founder, hold 99.15% and 0.85% equity interests in our VIE, respectively.

Implication of Being an Emerging Growth Company

As a company with less than US$1.07 billion in revenue for our last fiscal year, we qualify as an “emerging growth company” pursuant to the Jumpstart Our Business Startups Act of 2012, as amended (the “JOBS Act”). An emerging growth company may take advantage of specified reduced reporting and other requirements compared to those that are otherwise applicable generally to public companies. These provisions include an exemption from the auditor attestation requirement under Section 404 of the Sarbanes-Oxley Act of 2002 in the assessment of the emerging growth company’s internal control over financial reporting. The JOBS Act also provides that an emerging growth company does not need to comply with any new or revised financial accounting standards until such date that a private company is otherwise required to comply with such new or revised accounting standards. Pursuant to the JOBS Act, we have elected to take advantage of the benefits of this extended transition period for complying with new or revised accounting standards. As a result, our operating results and financial statements may not be comparable to the operating results and financial statements of other companies who have adopted the new or revised accounting standards.

We will remain an emerging growth company until the earliest of (a) the last day of the fiscal year during which we have total annual gross revenues of at least US$1.07 billion; (b) the last day of our fiscal year following the fifth anniversary of the completion of this offering; (c) the date on which we have, during the preceding three-year period, issued more than US$1.00 billion in non-convertible debt; or (d) the date on which we are deemed to be a “large accelerated filer” under the Securities Exchange Act of 1934, as amended, (the
“Exchange Act”), which would occur if the market value of our ADSs that are held by non-affiliates exceeds US$700 million as of the last business day of our most recently completed second fiscal quarter. Once we cease to be an emerging growth company, we will not be entitled to the exemptions provided in the JOBS Act discussed above.

Corporate Information

Our principal executive office is Block 2 Tower B Room 028, No 22 Pingguo Shequ, Bai Zi Wan Road, Chaoyang District, Beijing, China. Our telephone number at this address is +86 10 5876-9855. Our registered office in the Cayman Islands is Sertus Incorporations (Cayman) Limited, Sertus Chambers, P.O. Box 2547, Cassia Court, Camana Bay, Grand Cayman, Cayman Islands. Our agent for service of process in the United States is , located at . Our corporate website is www.blue-city.com. The information contained in our website is not a part of this prospectus.

Investors should contact us for any inquiries through the address and telephone number of our principal executive officers.

Conventions that Apply to this Prospectus

Unless otherwise indicated or the context otherwise requires, and for the purpose of this prospectus only:

• “ADRs” refer to the American depositary receipts that evidence our ADSs;
• “ADSs” refer to our American depositary shares, each of which represents ordinary shares;
• “ARPPU” refers to average revenue per paying user in a given period;
• “average daily sessions per active user” for any period is calculated by dividing (i) the sum of number of times of opening our Blued mobile app per DAU for each day of such period, by (ii) the number of days for such period;
• “average daily time spent per active user” for any period is calculated by dividing (i) the sum of time spent on our Blued mobile app per DAU for each day of such period, by (ii) the number of days for such period;
• “average DAUs” for any period is calculated by dividing (i) the sum of DAUs (as defined below) for each day of such period, by (ii) the number of days in such period;
• “average MAUs” for any period is calculated by dividing (i) the sum of MAUs (as defined below) for each month of such period, by (ii) the number of months in such period;
• “China” or “the PRC” refers to the People’s Republic of China, excluding, for the purposes of this prospectus only, Hong Kong, Macau and Taiwan, and “Greater China” includes Hong Kong, Macau and Taiwan;
• “BlueCity,” “we,” “us,” “our company” and “our” refer to BlueCity Holdings Limited, our Cayman Islands holding company, and its subsidiaries, its consolidated variable interest entity and the subsidiaries of the consolidated variable interest entity;
• “DAUs” refers to the number of users, including both paying and non-paying users, that logged in to our Blued mobile app in a given day at least once. We treat each account as a distinct user when calculating DAUs;
• “MAUs” refers to the number of users, including both paying and non-paying users, that logged in to our Blued mobile app in a given month at least once. We treat each account as a distinct user when calculating MAUs;
“our VIE” refers to Beijing BlueCity Culture and Media Co., Ltd.;
“our WFOE” refers to Beijing BlueCity Information & Technology Co., Ltd.;
“next-month retention rate,” as applied to the number of unique MAUs of Blued mobile app in a calendar month, is the percentage of these unique MAUs in the next calendar month;
“registered user” means a user that has registered by providing required information and logged in to our Blued mobile app at least once since registration. We calculate the number of registered users as the cumulative number of valid user accounts at the end of the relevant period, and consequently, the number of registered users may not be equal to the number of active user accounts during the relevant period. Each individual user may have more than one registered user account for our Blued mobile app, and consequently, the number of registered users we present in this prospectus may not be equal to the number of distinct individuals who are represented by the registered users;
“RMB” and “Renminbi” refers to the legal currency of China;
“ordinary shares” refer to our ordinary shares, par value US$0.0001 per share; and
“US$,” “U.S. dollars,” “$,” and “dollars” refer to the legal currency of the United States.

Unless the context indicates otherwise, all information in this prospectus assumes no exercise by the underwriters of their over-allotment option.

Our reporting currency is RMB. This prospectus also contains translations of certain foreign currency amounts into U.S. dollars for the convenience of the reader. Unless otherwise stated, all translations from Renminbi to U.S. dollars were made at a rate of RMB6.9618 to US$1.00, the exchange rate in effect as of December 31, 2019 as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System. We make no representation that any Renminbi or U.S. dollar amounts referred to in this prospectus could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, or at all. On March 6, 2020, the noon buying rate for Renminbi was RMB6.9298 to US$1.00.
### THE OFFERING

<table>
<thead>
<tr>
<th>Offering price</th>
<th>We currently estimate that the initial public offering price will be between US$ ( \text{and} ) US$ per ADS.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADSs offered by us</td>
<td>ADSs (or ADSs if the underwriters exercise their over-allotment option in full).</td>
</tr>
<tr>
<td>ADSs outstanding immediately after this offering</td>
<td>ADSs (or ADSs if the underwriters exercise their option to purchase additional ADSs representing ordinary shares in full), and does not include shares issuable upon full vesting and exercise of the options granted and outstanding as of the date of this prospectus.</td>
</tr>
<tr>
<td>Ordinary shares issued and outstanding immediately after this offering</td>
<td>ordinary shares (or ordinary shares if the underwriters exercise their over-allotment option in full). This number assumes the conversion, on a one-for-one basis, of all of our outstanding preferred shares into our ordinary shares immediately upon the completion of this offering.</td>
</tr>
<tr>
<td>The ADSs</td>
<td>Each ADS represents ordinary shares, par value US$0.0001 per share. The depositary will hold the underlying ordinary shares represented by your ADSs. You will have rights as provided in the deposit agreement among us, the depositary and holders and beneficial owners of ADSs from time to time. We do not expect to pay any cash dividends on our ordinary shares in the foreseeable future. If, however, we declare dividends on our ordinary shares, the depositary will pay you the cash dividends and other distributions it receives on our ordinary shares after deducting its fees and expenses in accordance with the terms set forth in the deposit agreement. You may surrender your ADSs to the depositary in exchange for ordinary shares. The depositary will charge you fees for any such exchange. We may amend or terminate the deposit agreement without your consent. If you continue to hold your ADSs after an amendment to the deposit agreement, you agree to be bound by the deposit agreement as amended. To better understand the terms of the ADSs, you should carefully read the “Description of American Depositary Shares” section of this prospectus. You should also read the deposit agreement, which is filed as an exhibit to the registration statement that includes this prospectus.</td>
</tr>
</tbody>
</table>
### Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Text</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over-allotment option</td>
<td>We have granted to the underwriters an option, exercisable within 30 days from the date of this prospectus, to purchase up to additional ADSs.</td>
</tr>
<tr>
<td>Use of proceeds</td>
<td>We expect that we will receive net proceeds of approximately US$ million from this offering, or approximately US$ million if the underwriters exercise their over-allotment option in full, assuming an initial public offering price of US$ per ADS, which is the mid-point of the estimated range of the initial public offering price, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. We plan to use the net proceeds we receive from this offering for (i) geographic expansion, (ii) technology and development and (iii) general corporate purpose. See “Use of Proceeds” for more information.</td>
</tr>
<tr>
<td>Lock-up</td>
<td>[We, our directors and executive officers, our current shareholders [and certain of our option holders] have agreed with the underwriters not to sell, transfer or dispose of any ADSs, ordinary shares or similar securities for a period of 180 days after the date of this prospectus, subject to certain exceptions. In addition, we will not authorize or permit , as depositary, to accept any deposit of any ordinary shares or issue any ADSs for 180 days after the date of this prospectus unless we expressly consent to such deposit or issuance and we have agreed not to provide such consent without the prior written consent of the representatives on behalf of the underwriters. The foregoing does not affect the right of ADS holders to cancel their ADSs and withdraw the underlying ordinary shares. See “Shares Eligible for Future Sale” and “Underwriting.”]</td>
</tr>
<tr>
<td>Directed Share Program</td>
<td>At our request, the underwriters have reserved for sale, at the initial public offering price, up to an aggregate of ADSs offered in this offering to some of our directors, officers, employees, business associates and related persons through a directed share program.]</td>
</tr>
<tr>
<td>Listing</td>
<td>We intend to apply to have the ADSs listed on the Nasdaq Global Market under the symbol “.” Our ADSs and shares will not be listed on any other stock exchange or traded on any automated quotation system.</td>
</tr>
<tr>
<td>Payment and settlement</td>
<td>The underwriters expect to deliver the ADSs against payment therefor through the facilities of the Depository Trust Company on , 2020.</td>
</tr>
<tr>
<td>Depositary</td>
<td></td>
</tr>
</tbody>
</table>

10
SUMMARY CONSOLIDATED FINANCIAL DATA

The following summary consolidated statements of comprehensive loss data and cash flow data for the years ended December 31, 2018 and 2019, and summary consolidated balance sheets data as of December 31, 2018 and 2019 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP. Our historical results are not necessarily indicative of results expected for future periods. You should read this Summary Consolidated Financial Data section together with our consolidated financial statements and the related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this prospectus.

| Summary Consolidated Statements of Comprehensive Loss Data: | For the years ended December 31, |
| | 2018 | 2019 | US$ |
| | RMB | RMB | (in thousands, except for share and per share data) |
| Revenues | 501,292 | 758,888 | 109,007 |
| Cost of revenues | (388,385) | (546,211) | (78,458) |
| Selling and marketing expenses | (98,011) | (119,437) | (17,156) |
| Technology and development expenses | (93,985) | (129,652) | (18,623) |
| General and administrative expenses | (70,072) | (24,439) | (3,511) |
| **Total cost and expenses** | **(650,453)** | **(819,739)** | **(117,748)** |
| Operating loss | (149,161) | (60,851) | (8,741) |
| Changes in fair value of financial instruments | (4,044) | (9,024) | (1,296) |
| Gain on extinguishment of a convertible debt | — | 8,986 | 1,291 |
| Interest income | 8,645 | 8,890 | 1,277 |
| **Loss before income taxes** | **(144,560)** | **(51,999)** | **(7,469)** |
| Income tax expense | — | (931) | (134) |
| Net loss | (144,560) | (52,930) | (7,603) |
| Deemed dividend to Series D Redeemable Convertible Preferred Shareholders | (1,535) | — | — |
| Accretion and modification of redeemable convertible preferred shares to redemption value | (236,615) | (631,005) | (90,638) |
| **Net loss attributable to ordinary shareholders** | **(382,710)** | **(683,935)** | **(98,241)** |
| Net loss per ordinary share | —Basic and diluted | (68.16) | (121.81) |
| Weighted average number of shares outstanding used in computing net loss per ordinary share | —Basic and diluted | 5,614,840 | 5,614,840 | 5,614,840 |
Non-GAAP Financial Measure:

Adjusted net loss

<table>
<thead>
<tr>
<th></th>
<th>2018 (in thousands)</th>
<th>2019 (in thousands)</th>
<th>US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted net loss</td>
<td>(90,249)</td>
<td>(52,892)</td>
<td>(7,598)</td>
</tr>
</tbody>
</table>

We consider Adjusted Net Loss, a non-GAAP financial measure, as a supplemental measure in evaluating and assessing our operating results.

Adjusted Net Loss represents net loss excluding share-based compensation, changes in fair value of financial instruments, and gain on extinguishment of a convertible debt. We believe that Adjusted Net Loss helps identify underlying financial and business trends relating to our results of operations that could otherwise be distorted by the effect of certain expenses that we include in loss from operations and net loss. By making our financial results comparable period by period, we believe Adjusted Net Loss provides useful information to better understand our historical business operations and future prospects and allow for greater visibility with respect to key metrics used by our management in financial and operational decision-making.

The presentation of the non-GAAP financial measure is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with U.S. GAAP. You are encouraged to review the historical non-GAAP financial measure to the most directly comparable U.S. GAAP measures. The non-GAAP financial measure presented by us may be calculated differently from and, therefore, may not be comparable to, similarly titled measures presented by other companies. We encourage you to review our financial information in its entirety and not rely on a single financial measure.

The table below sets forth a reconciliation of our net loss to Adjusted Net Loss for the periods indicated:

<table>
<thead>
<tr>
<th></th>
<th>2018 (in thousands)</th>
<th>2019 (in thousands)</th>
<th>US$</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Adjusted Net Loss reconciliation:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net loss</strong></td>
<td>(144,560)</td>
<td>(52,930)</td>
<td>(7,603)</td>
</tr>
<tr>
<td>Add:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share-based compensation</td>
<td>50,267</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Changes in fair value of financial instruments</td>
<td>4,044</td>
<td>9,024</td>
<td>1,296</td>
</tr>
<tr>
<td>Gain on extinguishment of a convertible debt</td>
<td>—</td>
<td>(8,986)</td>
<td>(1,291)</td>
</tr>
<tr>
<td><strong>Adjusted net loss</strong></td>
<td>(90,249)</td>
<td>(52,892)</td>
<td>(7,598)</td>
</tr>
</tbody>
</table>
The following table presents our summary consolidated balance sheets data as of December 31, 2018 and 2019:

<table>
<thead>
<tr>
<th>Summary Consolidated Balance Sheets Data:</th>
<th>2018 (RMB)</th>
<th>2019 (RMB)</th>
<th>US$ (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>63,047</td>
<td>297,274</td>
<td>42,701</td>
</tr>
<tr>
<td>Term deposits</td>
<td>371,766</td>
<td>83,017</td>
<td>11,925</td>
</tr>
<tr>
<td>Total current assets</td>
<td>483,049</td>
<td>433,994</td>
<td>62,339</td>
</tr>
<tr>
<td>Total assets</td>
<td>510,476</td>
<td>466,876</td>
<td>67,062</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>120,597</td>
<td>123,898</td>
<td>17,797</td>
</tr>
<tr>
<td>Total mezzanine equity</td>
<td>1,074,916</td>
<td>1,730,478</td>
<td>248,567</td>
</tr>
<tr>
<td>Total shareholders’ deficit</td>
<td>(685,037)</td>
<td>(1,387,500)</td>
<td>(199,302)</td>
</tr>
</tbody>
</table>

The following table presents our summary consolidated cash flow data for the years ended December 31, 2018 and 2019:

<table>
<thead>
<tr>
<th>Summary Consolidated Statements of Cash Flow Data:</th>
<th>For the years ended December 31, 2018 (RMB)</th>
<th>2019 (RMB)</th>
<th>US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash used in operating activities</td>
<td>(103,428)</td>
<td>(31,642)</td>
<td>(4,545)</td>
</tr>
<tr>
<td>Net cash (used in)/provided by investing activities</td>
<td>(113,172)</td>
<td>285,594</td>
<td>41,023</td>
</tr>
<tr>
<td>Net cash provided by/(used in) financing activities</td>
<td>166,251</td>
<td>(22,252)</td>
<td>(3,196)</td>
</tr>
<tr>
<td>Effect of foreign currency exchange rate changes on cash and cash equivalents</td>
<td>3,407</td>
<td>2,527</td>
<td>363</td>
</tr>
<tr>
<td>Net (decrease)/increase in cash and cash equivalents</td>
<td>(46,942)</td>
<td>234,227</td>
<td>33,645</td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the year</td>
<td>109,989</td>
<td>63,047</td>
<td>9,056</td>
</tr>
<tr>
<td>Cash and cash equivalents at the end of the year</td>
<td>63,047</td>
<td>297,274</td>
<td>42,701</td>
</tr>
</tbody>
</table>
An investment in our ADSs involves significant risks. You should consider carefully all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our ADSs. Any of the following risks could have a material and adverse effect on our business, financial condition and results of operations. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business, prospects, financial condition, results of operations and cash flows, and you may lose all or part of your investment.

**Risks Related to Our Business and Industry**

*If we fail to retain our existing users or acquire new users, or if user engagement declines, our business, results of operations and prospects may be materially and adversely affected.*

Our ability to maintain and grow our user base while keeping our users highly engaged is critical to the continued success and growth of our business. Since our inception in 2011, we have strived to create a trusted community and deliver more diversified products and services to attract new users and keep our existing users engaged. To maintain and improve the level of engagement of our users and expand our user base, we must continue to innovate our products and services, respond promptly to evolving user preferences and lifetime needs, implement new technologies and strategies, curate interesting content created by popular broadcasters and stimulate interactions in our community, all of which will require us to incur substantial costs and expenses. If such costs and expenses fail to effectively translate into larger user base and improved user engagement, we may not be able to achieve all these goals and our results of operations may be materially and adversely affected.

If we are not successful in our efforts to retain or grow our user base, the engagement level of our users may decrease, which may in turn reduce our monetization opportunities and have a material and adverse effect on our business, financial condition and results of operations. If we fail to convert users into paying users, or if the number of our paying users declines, our revenues may decline and our results of operations may be materially and adversely affected.

In particular, there is no assurance that our platform will be able to remain popular within the LGBTQ community. A number of factors could negatively affect user retention, growth and engagement, such as:

- failure to provide new products and services that are attractive to users;
- failure to adapt our products, services or business model to the needs of the LGBTQ community, new industry standards or emerging technologies;
- changes of service patterns or protocols that are required by, or that we elect to make to stay compliant with, legislation, regulations or government policies;
- failure to combat spam on or inappropriate or abusive use of our platform, which may lead to declined user trust in us, negative publicity about us and our brand or even cause us to incur legal liabilities;
- failure to protect our brand reputation;
- failure of our abilities to attract new and maintain existing broadcasters who could keep our users engaged;
- failure to address user concerns related to privacy and communication, safety, security or other factors; and
- failure to successfully compete with existing competitors or new market entrants.
We have a limited operating history and we may not be able to sustain our rapid growth, effectively manage our growth or implement our business strategies.

We have experienced rapid growth since our inception in 2011. As we grow our user base, increase the level of user engagement, broaden our mix of products and services and expand overseas, we may incur increasing costs related to our expansion domestically and internationally. If such expansion is not properly managed, it may adversely affect our financial condition and results of operations.

As we have a limited operating history, it is difficult to assess our future prospects or forecast our future results of operations. You should consider our business and prospects in light of the risks and challenges we encounter or may encounter in this developing and rapidly evolving market, some of which are beyond our control. These risks and challenges include, among other things:

- the emergence of alternative business models, changes in rules, regulations, government policies or general economic conditions;
- our ability to develop and deploy diversified and unique features, products and services for our users;
- our ability to hire, retain and motivate talented employees and attract management talents that are compatible with our business expansion both domestically and internationally;
- decreasing user spending, decreasing user engagement, increasing competition, and declining growth of our overall market or industries;
- our ability to increase the number of users;
- our ability to expand into new geographic markets that are amenable to our business model;
- our ability to develop a reliable, scalable, secure, high-performance technology infrastructure that can efficiently handle increased usage and enlarged user base;
- the ability of our broadcasters to deliver engaging content on our platform;
- our ability to develop or implement strategic initiatives to monetize our platform;
- our ability to successfully compete with other companies, some of which have substantially greater resources and market power than us, that are currently in, or may in the future enter, our industries, or duplicate the features of our services; and
- our ability to defend ourselves against litigation and/or claims relating to regulatory compliance, intellectual property, privacy or other matters.

Many aspects of our business are unique, evolving and relatively unproven. Our business and prospects depend on the continuing development of the industries in which we operate, in each case, especially among the LGBTQ community. The market for our products and services is relatively new and rapidly developing and is subject to significant challenges. Our business relies upon our ability to create a vibrant and interactive platform addressing the full life cycle needs of the LGBTQ population and to successfully monetize our user base, so as to increase revenues from various sources, including live streaming, membership, advertising, health-related and family planning services. In addition, our rapid growth and expansion has placed, and will continue to place, significant strain on our management and resources. This level of significant growth may not be sustainable or achievable at all in the future. We believe that our continued growth will depend on many factors, including our ability to develop new sources of revenues, diversify monetization methods, continue developing innovative technologies in response to user demand, increase brand awareness, expand into new market segments, and adjust to the rapidly changing regulatory environment globally. There can be no assurance that we will achieve any of the above, and our failure to do so may materially and adversely affect our business and results of operations.
We cannot guarantee that our monetization strategies will be successfully implemented or generate sustainable revenues and profit.

We are in the early stage of our business and our monetization model is new and evolving. We began monetizing our business in 2016. Currently, we generate a significant majority of our revenues from live streaming services. In 2018 and 2019, respectively, we generated RMB457.8 million and RMB671.4 million (US$96.4 million) of revenues from live streaming, representing 91.3% and 88.5% of our total revenues for the same period. The remaining revenues are generated from membership services, advertising services and others. As we continue to develop our business and expand overseas, we are making efforts to adjust our revenue mix by continuing to convert our non-paying users into paying users, grow our health-related and family planning businesses and explore various new and innovative revenue streams. As a result, our revenue is affected by our ability to expand into new markets, increase user engagement and convert non-paying users to paying users, which in turn depends on our ability to offer high-quality products and services. If we fail to generate revenues from users in our new markets, monetize our existing or new services or develop new approaches to monetization, we may not be able to maintain or increase our revenues and profits or recover any associated costs. We monitor market developments and may adjust our monetization strategies accordingly from time to time, which may result in decreases of our overall revenue or revenue contributions from some monetization channels. In addition, we may have limited or no experience with the new revenue streams that we may introduce in the future. If these new revenue streams fail to engage our users, customers or business partners, we may fail to retain or attract users or generate sufficient revenues to justify our investment, and our business and results of operations may suffer as a result.

We have substantial overseas operations and we plan to continue expanding our operations abroad. If we fail to meet the challenges presented by our increasing international operations, our business, financial condition and results of operations may be materially and adversely affected.

We began to expand our business operations overseas in 2017 and our Blued mobile app currently has users in over 200 countries and regions. As we continue to expand our business internationally, we will face risks associated with expanding into markets where we have limited or no experience and where we may be less well-known or have fewer local resources. If we fail to execute our global expansion strategy, we may be subject to a variety of risks inherent in doing business internationally, including:

- political, social and economic instability of each foreign jurisdiction where we operate;
- bias and negative social sentiment towards the LGBTQ community;
- fluctuations in currency exchange rates;
- compliance challenges due to different laws and regulatory environments, particularly in the case of privacy and data security;
- potential non-compliance with tax regulations in multiple tax jurisdictions;
- risks related to the overall legal and regulatory environment in foreign jurisdictions, including with respect to privacy, difficulties understanding and ensuring compliance with multiple, conflicting and changing laws, rules and regulations by both our employees and our business partners, over whom we exert no control, and unexpected changes in law, regulatory requirements and enforcement;
- potential damage to our brand and reputation due to compliance with local laws, including potential censorship and/or requirements to provide user information to local authorities;
- difficulties in staffing and managing global operations and the increased travel, infrastructure and compliance costs associated with multiple international locations; and
- differing levels of technology development in different countries, including third party payment platforms.
As we expand further into new and existing countries, regions and markets, these risks could intensify, and efforts we make to expand our businesses and operations internationally may not be successful. Failure to expand internationally and manage the complexity of our global operations successfully could materially and adversely affect our business, financial condition and results of operations.

In December 2019, users in countries and regions outside of China represented over 40% of our total MAUs. We are still in the early stage of generating revenue from our users outside of China. Despite our global footprint, approximately 3.4% and 6.6% of our total revenues for 2018 and 2019, respectively, were contributed by users outside China. There can be no assurance we will be as effective or efficient in generating revenue from our users outside China as we were in generating revenue from our users in China. We have devoted, and will need to continue to devote, substantial managerial, financial and human resources to devise and implement monetization strategies and product and service offerings that are suitable for diverse overseas markets with different user needs, competitive landscapes and operational requirements. If we fail to generate revenue from our users outside of China in an effective and efficient manner, our business, financial condition, and results of operations may be materially and adversely affected.

Our business is subject to complex and evolving laws and regulations in various countries and regions where we have business. Many of these laws and regulations are subject to change and uncertain interpretation, and could result in claims, changes to our business practices, monetary penalties, increased cost of operations, or declines in user growth or engagement, or otherwise harm our business.

We are subject to a variety of laws and regulations that involve matters important to or may otherwise impact our business, including, among others, provision of internet information, sales of internet advertising, providing live streaming and short video broadcasting services, online sale of pharmaceutical products, providing family planning services, user privacy, data protection, protection of minors, foreign exchange and taxation. See also “Regulations.” The introduction of new products and services, expansion of our activities in certain jurisdictions, or other actions that we may take may subject us to additional laws, regulations, or other government scrutiny. In addition, foreign laws and regulations can impose different obligations or be more restrictive than those in the PRC.

These laws and regulations are continuously evolving and can be subject to significant change. As a result, the application, interpretation, and enforcement of these laws and regulations are often uncertain, particularly in the rapidly evolving industries in which we operate and any new jurisdiction into which we enter. In addition, these laws and regulations may be interpreted and applied inconsistently by different agencies or authorities and in different jurisdictions, and inconsistently with our current policies and practices. These laws and regulations may be costly to comply with, and such compliance or any associated inquiries or investigations or any other government actions may delay or impede our development of new products and services, result in negative publicity, increase our operating costs, require significant management time and attention, and subject us to remedies, administrative penalties and even criminal liabilities that may harm our business, including fines assessed for our current or historical business operations, or demands or orders that we modify or cease existing business practices.

The promulgation of new laws or regulations, or the new interpretation of existing laws and regulations, in each case that restrict or otherwise unfavorably impact the ability or manner in which we provide our products and services could require us to change certain aspects of our business and operations to ensure compliance, which could decrease demand for products and services, reduce revenues, increase costs, require us to obtain more licenses, permits, approvals or certificates, or subject us to additional liabilities. To the extent any new or more stringent measures are required to be implemented, our business, financial condition and results of operations could be adversely affected.

Due to the uncertainties in the regulatory environment of the industries in which we operate, there can be no assurance that we have obtained or applied for all the approvals, permits and licenses required for conducting our
business and all activities, or that we would be able to maintain our existing approvals, permits and licenses if required by any future laws or regulations. If we fail to obtain and maintain approvals, licenses or permits required for our business, or to comply with relevant laws and regulations, we could be subject to liabilities, fines, penalties and operational disruptions, or we could be required to modify our business model, which could materially and adversely affect our business, financial condition and results of operations. See also “—Risks Relating to Doing Business in China—We may be adversely affected by the complexity, uncertainties and changes in PRC laws and regulation, and any lack of requisite approvals, licenses or permits applicable to our business may have a material adverse effect on our business, financial conditions and results of operations.”

The success of our business depends in part on our ability to develop and provide our users with new and innovative products and services.

Our business is growing and becoming more complex, and our ability to engage, retain, increase and engage our user base and to increase our revenue will depend heavily on our ability to quickly and successfully develop and launch new and innovative products and services. The industries in which we operate are evolving rapidly and users expect to see new features and experience new products and services offered by us within a relatively short period of time. Over the years, we have been continuously upgrading our social networking platform. Users can enjoy our premium services by subscribing for our VIP or SVIP services and/or purchase our pay-per-use enhancement functions, communicate with each other in various means, such as text, pictures, videos, voice and gaymojis, share their lives or view the lives of other users, enjoy talent shows, interact with broadcasters and send virtual gifts to broadcasters. We have also started offering health-related and family planning services to our users to address their growing needs. We may introduce significant changes to our existing products and services or develop and introduce new and unproven products and services. Developing and integrating new products and services could also be expensive and time-consuming, and these efforts may not yield the benefits we expect to achieve at all. If new or enhanced products or services fail to engage our users, customers or business partners, we may fail to attract or retain users or to generate sufficient revenue, operating margin, or other value to justify our investments, any of which may seriously harm our business.

We have incurred, and may continue to incur net losses in the future.

We recorded net losses of RMB144.6 million and RMB52.9 million (US$7.6 million) in 2018 and 2019, respectively. Although we have narrowed our net loss in recent periods, such positive trend may not continue. Our ability to achieve profitability is affected by various factors, many of which are beyond our control, such as the continual development of the industries in which we operate, both in China and other countries and regions, changes in the macroeconomic and regulatory environment or competitive dynamics and our inability to respond to these changes in a timely and effective manner. We also expect our costs to increase on an absolute basis due to our continued investment in services, products, technology and development and our continued sales and marketing initiatives. If we cannot successfully offset our increased costs with a significant increase in total revenues, our financial condition and results of operations may be materially and adversely affected. We may continue to incur net losses in the future.

The availability of our mobile app in countries and regions with anti-LGBTQ public policies, negative sentiment toward the LGBTQ community or where homosexuality is illegal may subject our users to danger, and may lead to our application being blocked or banned, which could have an adverse effect on our reputation and business.

Currently, our mobile app Blued is available in countries and regions with anti-LGBTQ public policies, negative sentiment toward the LGBTQ community, and where homosexuality is illegal. Legal consequences for same-sex activities and relationships in countries and regions where same-sex relationships are illegal vary depending on the local law, with the most severe being the death penalty. In countries and regions with anti-LGBTQ public policies or negative sentiment toward the LGBTQ community but same-sex relationships are not
explicitly illegal, governmental authorities generally have discretion to block LGBTQ platforms on broad moral grounds. For example, in early 2018, dozens of apps for the LGBTQ community, including Blued, were blocked by the Google app store upon the request of the Indonesian government. If any of our users in these countries and regions are subjected to penalties as a result of using our products and services or if any of our products and services were to be banned in any of these countries and regions, we may be unable to retain existing users and attract new users, and we may be subject to heightened regulatory scrutiny, which would in turn have a material adverse effect on our reputation and business.

Because we store, process and use data, some of which contains sensitive personal information, we face concerns over the collection, improper use or disclosure of personal information, which could deter current and potential users from using our products and services, damage our reputation, face regulatory scrutiny, and in turn materially and adversely affect our business, financial condition and results of operations.

Concerns or claims about our practices with regard to the collection or use of personal information or other privacy-related matters, even if unfounded, could damage our reputation and results of operations. Under the Cyber Security Law of China, any individual or organization using the network must comply with the constitution and the applicable laws in China, and the owners and administrators of networks and network service providers have various security protection obligations. See also “Regulation—Regulations Relating to Internet Information Security and Privacy Protection.” We have adopted a privacy policy with respect to how we use and store user information, and we may use such information to provide and improve our products, services, content and advertising in strict compliance with the policy. While we strive to comply with our privacy guidelines as well as all applicable data protection laws and regulations, any failure or perceived failure to comply with these laws, regulations or policy may result in inquiries and other proceedings or actions against us by governmental authorities or others, as well as negative publicity and damage to our reputation and brand, each of which could cause us to lose users and business partners and have an adverse effect on our business and results of operations. The LGBTQ population generally have higher expectations about the protection of identity and privacy. If we fail to secure and conceal our users’ identity and protect their identity-specific data, including their geographic location, our users may be vulnerable to insults, harassment, blackmails or physical injuries, and their family, property and other assets may also be put at risk. As a result, we may be held liable for these incidents, and our users may feel insecure and cease to use our products and services. Our reputation may be seriously harmed and we may be unable to retain existing customers and attract new customers, which would in turn have a material adverse effect on our business and results of operations.

Any systems failure or compromise of our security that results in the unauthorized access to or release of the data, photo or chat history of our users could significantly limit the adoption of our services, as well as harm our reputation and brand, result in litigation against us, liquidated and other damages, regulatory investigations and penalties, and we could be subject to material liability. We expect to continue expending significant resources to protect against security breaches. The risk that these types of events could seriously harm our business is likely to increase as we expand the scope of products and services we offer and as we increase the size of our user base.

Laws, regulations or policies concerning data protection, medical records and health data, user privacy, rights of publicity, distribution and protection of minors are continuously evolving, generally becoming more stringent and remain subject to significant changes both in the PRC and abroad. Many jurisdictions have in the past adopted, and may in the future adopt, new laws and regulations, or amendments to existing laws and regulations, affecting data protection, data privacy and/or information security, such as the General Data Protection Regulation, or the GDPR, adopted by the European Union that became fully effective on May 25, 2018. The GDPR imposes more stringent operational requirements for processors and controllers of personal data, including, for example, requiring expanded disclosures about how personal information is to be used, limitations on retention of information, mandatory data breach notification requirements, and higher standards for data controllers to demonstrate that they have obtained either valid consent or have another legal basis in place to justify their data processing activities. The GDPR further provides that European Union member states may make their own additional laws and regulations in relation to certain data processing activities. Under the
GDPR, fines of up to €20 million or up to 4% of the total worldwide annual turnover of the preceding financial year, whichever is higher, may be assessed for non-compliance. We may become subject to these and similar laws and regulations by virtue of having users who reside in these jurisdictions, even if we do not have a physical presence there. In addition, the interpretation and application of these laws or regulations are often uncertain and in flux. Our practice may become inconsistent with these laws and regulations, if so, in addition to the possibility of fines, this could result in an order requiring that we change our practices, which could have an adverse effect on our business and results of operations. Complying with new data laws and regulations could cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business. See also “—Risks Related to Doing Businesses in China—Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.”

Even if our practices are consistent with existing laws and regulations, we could be subject to enhanced regulatory scrutiny over our data privacy and security practices. Governmental and regulatory authorities could deem the sensitive personal information we handle as putting national security interests at risk. If relevant authorities were to reach similar conclusions about our company and intervene in our business activities, we could be forced to halt or reverse our expansion into certain countries and regions, we may lose existing users and our reputation may be negatively affected, which would in turn materially and adversely affect our business, financial condition and results of operations.

If we fail to keep up with technological developments and evolving user expectations, we may fail to maintain or attract users and customers or generate revenues, and our business and results of operations may be materially and adversely affected.

We operate in markets characterized by rapidly changing technologies, evolving industry standards, new product and service announcements, new generations of product enhancements, and changing user expectations. Accordingly, our performance and the ability to further monetize our products and services will depend on our ability to adapt to these rapidly changing technologies and industry standards, and our ability to continually innovate in response to both evolving demands of the marketplace and competitive services. There may be occasions when we may not be as responsive as our competitors in adapting our products and services to changing industry standards and the needs of our users. Historically, new features may be introduced by one player in the industry, and if they are perceived as attractive to users, they are often quickly copied and improved upon by others.

Introducing new technologies into our systems involves numerous technical challenges, substantial amounts of capital and personnel resources and often takes many months to complete. We intend to continue to devote resources to the development of additional technologies and services. We may not be able to effectively integrate new technologies on a timely basis or at all, which may decrease user satisfaction with our products and services. Such technologies, even if integrated, may not function as expected or may be unable to attract and retain a substantial number of users to use our platform. We also may not be able to protect such technology from being copied by our competitors. Our failure to keep pace with rapid technological changes may cause us to fail to retain or attract users or generate revenues, and could have a material and adverse effect on our business and results of operations.

The recent outbreak of COVID-19 could materially and adversely affect our business, results of operations and financial condition.

In December 2019, a novel strain of coronavirus, later named COVID-19, was reported in Wuhan, China. In late January 2020, in response to intensifying efforts to contain the spread of the coronavirus, the Chinese government took a number of actions, which included among others, extending the Chinese New Year holiday, quarantining and otherwise treating individuals in China who had COVID-19, asking residents to remain at home and to avoid gathering in public. The World Health Organization has characterized COVID-19 as a pandemic.
On January 30, 2020, the U.S. Department of State issued a Level 4 “do not travel” advisory for China. In February 2020, increasing numbers of additional cases were confirmed in many other countries and regions around the world.

While we do not maintain a corporate office in Wuhan, our headquarters are located in Beijing and we also have offices in other cities of China which have been severely impacted by the outbreak of COVID-19. This outbreak has caused, and may continue to cause, companies in China and other affected regions, including us and certain of our business partners, to implement temporary adjustment of work schemes allowing employees to work from home and collaborate remotely. We have taken measures to reduce the impact of this pandemic outbreak, including adjusting our work and staffing arrangements, rescheduling certain offline events and monitoring our employees’ health. However, we might still experience lower work efficiency and productivity, which may adversely affect our service quality. This outbreak has also led to travel restrictions and various other types of interruptions to our employees, suppliers and business partners, such as broadcast agencies. In addition, the outbreak has had an adverse impact on the activity levels of our users, as they are discouraged from engaging in offline social networking activities initiated through our social networking platform. Certain types of livestreaming content, such as those involving group gatherings and outdoor activities, have also become impracticable as a result of the outbreak. As a result of any of the above developments, our business, financial condition and results of operations for the full fiscal year of 2020, especially its first two quarters, may be adversely affected. The full extent to which this outbreak may impact our business, results of operations and financial condition will depend on future developments which are highly uncertain and cannot be predicted, including a potential economic slowdown in China and globally, new information which may emerge concerning the severity of this outbreak, and future actions we may take, if any, in response to the subsequent developments.

Our business depends on our ability to maintain and scale our technology infrastructure. Any service disruption in our service could damage our reputation, result in a potential loss of users and decrease in user engagement, and seriously harm our business.

The popularity of our platform and our ability to further monetize user traffic depend on our ability to adapt to rapidly changing technologies as well as our ability to continually innovate in response to evolving user demands and expectations and intense market competition. Our ability to provide a superior user experience on our platform depends on the continuous and reliable operation of our IT systems and infrastructures.

As our user base and the volume and types of information shared on our platform continue to grow, we will need an increasing amount of technology infrastructure, including network capacity and computing power, to continue to satisfy our users’ needs. For example, in China, almost all access to the internet is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the Ministry of Industry and Information Technology, or the MIIT. Moreover, we primarily rely on a limited number of telecommunication service providers to provide us with data communications capacity through local telecommunications lines and internet data centers to host our servers. We have limited access to alternative networks or services in the event of disruptions, failures or other problems with internet infrastructure or the fixed telecommunications networks provided by telecommunication service providers. Web traffic in most countries around the world has experienced significant growth during the past few years. Effective bandwidth and server storage at internet data centers in large cities are scarce. With the expansion of our business, we may be required to upgrade our technology and infrastructure to keep up with the increasing traffic on our platform. There can be no assurance that the internet infrastructure and the fixed telecommunications networks in countries where we operate will be able to support the demands associated with the continued growth in internet usage. If we cannot increase our capacity to deliver our services, we may not be able to the increases in traffic we anticipate from our expanding user base, and the adoption of our services may be hindered, which could adversely impact our business and impede our growth.

In addition, we have no control over the costs of the services provided by telecommunication service providers. If the prices we pay for telecommunications and internet services rise significantly, our results of
operations may be materially and adversely affected. Furthermore, if internet access fees or other charges to internet users increase, some users may be prevented from accessing the mobile internet and thus cause the growth of mobile internet users to decrease, which may in turn adversely affect our ability to continue to expand our user base.

Our IT systems and content delivery network are also vulnerable to damage or interruption as a result of fire, floods, earthquakes, power losses, telecommunication failures, undetected errors in software, computer viruses, hacking or other attempts to harm our IT systems. We have experienced, and may in the future experience, service disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes and cybersecurity-related threats, if we fail to address these issues promptly and in a way satisfactory to our users, our user experience may be negatively affected, which in turn may have a material and adverse effect on our reputation and business.

We currently rely on UCloud and Qiniu for all of our computing, storage, bandwidth and other services both in and outside of China. Any transition of the cloud services currently provided by UCloud and Qiniu to other cloud providers would be difficult to implement and will cause us to incur significant time and expense. Any significant disruption of or interference with our use of UCloud and Qiniu would negatively impact our operation and business would be seriously harmed. If our users or partners are not able to access our mobile platform through UCloud and Qiniu or encounter difficulties in doing so, we may lose users, partners or revenues. The level of service provided by UCloud and Qiniu may also impact the usage of our users’ and partners’ satisfaction with our mobile platform and could seriously harm our business and reputation. If UCloud and Qiniu experience interruptions in service regularly or for a prolonged basis, or other similar issues, our business would be seriously harmed. Hosting costs will also increase as our user base and user engagement grows and may seriously harm our business if we are unable to grow our revenues faster than the cost of utilizing the services of UCloud, Qiniu or similar providers.

We cooperate with talent agencies to manage all of our broadcasters. If we are not able to maintain our relationship with talent agencies, our operations may be materially and adversely affected.

We cooperate with talent agencies to manage all broadcasters on our platform. All of our live streaming revenues are contributed by broadcasters managed by talent agencies. Cooperation with talent agencies increases our operational efficiency in terms of discovering, supporting and managing broadcasters in a more organized and structured manner, and turning amateur broadcasters to full-time broadcasters.

We pay talent agencies certain fees determined based on a percentage of revenue from virtual gift sales that are attributed to the broadcasters’ live streams. If the talent agencies fail to reach or maintain satisfactory cooperation arrangements with such broadcasters or ensure timely payments to the broadcasters, we may not be able to retain or attract broadcasters.

In addition, some talent agencies do not have exclusive cooperative relationships with us. If other platforms offer better incentives to these talent agencies, such talent agencies may choose to devote more of their resources to broadcasters who stream on the other platforms, or they may encourage their broadcasters to use or even enter into an exclusive agreement with other platforms, any of which could materially and adversely affect our business, financial condition and results of operations.

We may fail to attract, cultivate and retain top broadcasters, which may negatively affect our user retention and our business and results of operations.

The size and engagement level of our user base as well as the quality of the live streaming content offered on our platform are critical to our success and are closely linked to the broadcasters who perform on our platform.
In 2019, our top 20 most popular broadcasters in terms of user spending attributable to their respective live streams contributed approximately 24.5% of our total live streaming revenues. Although these broadcasters are subject to exclusivity provisions, if any of them decides to breach the agreement or chooses not to continue the cooperation with us once the current term expires, the popularity of our platform may decline and the number of our paying users or the amount of revenues we generate from each paying user may decrease, which could materially and adversely affect our operations, financial condition and results of operations.

In addition to the most popular broadcasters on our platform, we must continue to attract and retain talented broadcasters in order to maintain and increase the amount of content on our platform and ensure the sustainable growth of our live streaming business. We must identify and acquire potential talented broadcasters and provide them with sufficient resources. We cooperate with talent agencies to recruit, manage, train and support our broadcasters, as well as conduct activities to promote new broadcasters. However, there can be no assurance that we can continue to maintain the same level of attractiveness to our broadcasters.

Broadcasters on our platform, including those who are subject to exclusivity provisions, may leave us for other platforms which may offer better services and terms than we do. In addition, if talented and popular broadcasters cease to contribute content to our platform, or their live streams fail to attract users, we may experience a decline in user traffic and user engagement, which may have material and adverse impact on our results of operations, financial conditions and results of operation.

Increases in the costs of content on our platform, such as higher revenue sharing ratio with broadcasters through talent agencies, may have an adverse effect on our business, financial condition and results of operations.

Our Blued platform needs popular and attractive content to provide our users with engaging and satisfying viewing experiences, and the generation and sharing of such content is dependent on our ability to attract and retain our live broadcasters and talent agencies. We have a revenue sharing arrangement with our broadcasters through their talent agencies under which we share with them a portion of the revenues from the sales of virtual items on our platform. The absolute amounts and revenue percentages that we pay talent agencies may increase if our competitor platforms offer higher revenue sharing ratios with an intent to attract the most popular broadcasters on our platform. If we are not able to continue to retain our broadcasters and high quality content cannot be generated on our platform at costs that are commercially viable, our business, financial condition and results of operations would be adversely impacted. Furthermore, as our business and user base further expands, we may have to devote more resources in encouraging our broadcasters to produce more diverse content that meets the varied interests of our user base, which would increase the costs of content on our platform. There can be no assurance that these investments of resources will generate the returns we expect. If we are unable to generate sufficient revenues that outpace our increased content costs, our business, operating margins, financial condition and results of operations may be materially and adversely affected.

Our revenue growth is significantly dependent on paying users and revenue per paying user. If we fail to grow or maintain our paying user and increase revenue per paying user, our business operation and financial results may be materially and adversely affected.

Our revenues and results of operation depends on our ability to monetize our user base, to convert more users to paying users and to increase the spending of our paying users. Whether we can increase paying users and ARPPU depends on many factors, and many of them are out of our control. For example, our users may be unwilling to pay for our products and services, we may fail to develop new products and services that are attractive enough to our existing paying users for them to pay, our paying users may have less disposable income as they need to meet financial obligations elsewhere, they may decide to no longer follow a particular broadcaster that they had supported financially, and overall worsening economic conditions can lower disposable income for all existing paying users, causing them to spend less on our platform. We expect that our business will continue to be significantly dependent on revenue collected from paying users in the near future. Any decline in the number of paying users or ARPPU may materially and adversely affect our results of operations.
We generate a portion of our revenues from advertising. If we fail to attract more advertisers to our platform or if advertisers are less willing to advertise with us, our revenues may be adversely affected.

Although we currently primarily rely on revenues generated from live streaming services, we also generate a portion of our revenues from advertising. In 2018 and 2019, we generated RMB32.9 million and RMB35.4 million (US$5.1 million) revenues from the sales of advertising, representing 6.6% and 4.7% of our total revenues for the same period. Our revenues from advertising partly depend on the continued development of the online advertising industry in China and abroad and advertisers’ willingness to allocate budgets to online advertising or advertising at all due to macroeconomic conditions and, more importantly, their willingness to allocate budgets to our platform that serves primarily the LGBTQ community. In addition, companies that decide to advertise or promote online may utilize more established methods or channels, such as more established internet portals or search engines, over advertising on our platform, due to their concern about user perception or otherwise. If the online advertising market does not continue to grow, or if we are unable to capture and retain a sufficient share of that market, our ability to increase our current level of advertising revenues and our profitability and prospects may be materially and adversely affected.

Furthermore, our core and long-term priority of optimizing user experience and satisfaction may limit our platform’s ability to generate revenues from advertising. For example, in order to provide our users with an uninterrupted user experience, we have limited the amount of advertising placement and inventory and designed functions to allow users to skip or shut down advertisements more conveniently. Our philosophy of putting our users first may not be in line with the interest of our advertisers, and may not result in the long-term benefits that we expect, in which case the success of our business and results of operations could be harmed.

Any non-compliance found on the advertisements shown on our online platform and online store may subject us to penalties and other administrative actions.

We are responsible for and are obligated to monitor the advertising content shown on our platform and online store to ensure that such content is true and accurate and in full compliance with applicable laws and regulations. In addition, for certain types of advertisements such as advertisements relating to pharmaceuticals and medical devices, review by relevant governmental authorities is required before such advertisements can be posted, and we are obligated to confirm that such review has been performed and approval has been obtained.

While we have made significant efforts to ensure that the advertisements shown on our platform are in full compliance with applicable PRC laws and regulations, there can be no assurance that all the content contained in such advertisements or offers is true and accurate as required by the advertising laws and regulations, especially given the uncertainty in the interpretation of these PRC laws and regulations. For example, we enter into agreements with third parties in relation to the distribution of pharmaceutical products of such third parties through our online store. If such arrangement is deemed as conducting advertising operations, we will be required to submit application to the applicable governmental authority for approval before displaying the pharmaceutical products on our online store. If we fail to do so, we may be ordered to cease dissemination of the advertisements, our advertising income on such products will be confiscated, and we will be subject to a fine of three to five times the advertising income. In addition, advertisements of prescription drugs are not allowed to be posted on the internet and social media. If the distribution of third-party prescription drugs on our online store are deemed as conducting advertising operations, our advertising income on such products will be confiscated, and we will be subject to a fine between RMB200,000 and RMB1,000,000, and in serious cases, we may be ordered by the relevant PRC governmental authorities to close the online store and terminate the business of online pharmacy, which may have a material adverse effect on our business, financial condition, results of operations and prospects.

We are subject to risks inherent in marketing, distributing and selling pharmaceutical and other health and wellness products.

In connection with the health-related services offered on He Health, we are exposed to risks inherent in marketing, distributing and selling pharmaceutical and other health and wellness products in China. Although our
mobile platform is primarily a marketplace for the display of pharmaceutical and other health and wellness products, and we cooperate with a major licensed online pharmacy in China to provide our users access to a wide variety of OTC and prescription drugs and nutritional supplements related to men’s health, we may still be subject to administrative penalties if we fail to comply fully with the legal formalities, and/or claims or customer complaints if any of our customers experience side effect or complications, any products sold through our platform are deemed or proven to be unsafe, ineffective or defective, or are found to contain illicit substances, we may also be subject to customer allegations, such as providing inadequate warnings or insufficient or misleading disclosures of side effects.

Any claims made against us could be costly to defend against, result in substantial damage awards against us and divert the attention of our management from our operations, which could have a material adverse effect on our business, financial condition, results of operations and reputation.

Our business may be materially and adversely affected by unfavorable perception of, or negative developments and news regarding, the family planning services we provide and/or the ART industry as a whole.

Demand for our family planning services is affected by the general perception and social acceptance of ART, including whether prospective patients feel negatively about using assisted reproductive treatments. For example, we are aware that ART technology in general has been viewed negatively or opposed to by certain feminist groups. Furthermore, certain ART services that are in demand among members of the LGBTQ community, including surrogacy, use of a gestational carrier, directed gamete donation and collection, and embryo donation and collection are currently prohibited in China. Any negative perception of ART or actual or potential actions by relevant governmental authorities or other parties against ART service providers may subject us to potential penalties and other legal liabilities, render potential customers reluctant to seek, or delay seeking, our family planning services, or cause negative perception towards our company as a whole, thereby having an adverse effect on our brand, reputation and the other products and services provided by us. Should conservative perception of the use of ART develop, prospective patients may feel that ART is not widely accepted by the society and the demand for ART could be limited, resulting in material adverse effect on the number of customers that may reach out to us to consult about family planning services, and the growth of our family planning services, our results of operations, brand and reputation may be adversely affected.

From time to time, there has been negative news and publicity about the assisted reproductive industry, assisted reproductive medical facilities and/or medical professionals practicing in this industry. Any further negative news and publicity about the ART industry could amplify existing concerns and misperceptions about ART, and thus may have an adverse effect on our business and results of operations.

Uncertainties in laws and regulations applicable to the ART industry may materially and adversely affect our business.

PRC laws provide that ART should only be carried out in approved and registered medical institutions in China. No entity or individual in the PRC should carry out ART or related intermediary services in the PRC without the approval of competent public health authority. Furthermore, any form of advertisement on unapproved ART services is prohibited in the PRC. From time to time, the governmental authorities in the PRC initiate campaigns against unapproved ART services and entities acting as intermediaries or providing advertising for such services, by strengthening the supervision of the publication of relevant information and advertisements on social media, and on investigating intermediaries for illegal ART activities.

As part of our family planning services, our subsidiary in China, Bluebaby (Beijing) Medical Management & Consulting Ltd., or Bluebaby Beijing, provides consulting and administrative services related to ART such as translation, concierge and logistics. However, due to the lack of a clear and consistent official distinction between the consulting services and intermediary or advertising services in the PRC, there is no assurance that our family planning service may not be deemed by the relevant PRC governmental authorities as
intermediary or advertising service. The revenues generated from our family planning services represent approximately 1.2% of our total revenues in 2019.

If the relevant PRC governmental authorities, including a PRC court, deem Bluebaby Beijing as an intermediary or providing advertising for unapproved ART services, the validity and enforceability of service agreements entered into between Bluebaby Beijing and its customers may be challenged and will be considered in light of the general principles of PRC civil law by taking several factors into consideration, such as ethical, legal and social impact. If the relevant PRC governmental authorities determine that we are providing intermediary services or advertising on unapproved ART services in the PRC:

• we will be unable to continue the marketing and promotion activities of ART services in China;
• we will be required to change the displays and certain functions of our mobile application and website to correct any deemed non-compliances; and
• we may be subject to fines, confiscation of illegal gains, discontinuation or restriction of our operations in China, shutting down of all or a portion of our network or servers, takedown of our mobile application from the app store, revocation of business license of the applicable operating entity, operation limits, banning of the gateway to the ART consulting services, and other regulatory or enforcement actions, which may have a material and adverse effect on our business and results of operations. See also “Risk Factors—Risks Related to Our Business and Our Industry—Our business is subject to complex and evolving laws and regulations in various countries and regions where we have business. Many of these laws and regulations are subject to change and uncertain interpretation, and could result in claims, changes to our business practices, monetary penalties, increased cost of operations, or declines in user growth or engagement, or otherwise harm our business.”

Our commercial dealings with ART service providers outside of China may also subject us to risks associated with compliance with local laws and regulations. For example, when we introduce customers to ART service providers outside of China, such as reproductive clinics and ancillary agencies, we receive commissions from the ART service providers as referral fees. Local laws of certain jurisdictions where some of these ART service providers operate prohibit commission payments of this nature. Where prohibited by local laws, we ceased entering into new agreements containing commission payment arrangements since January 2020 to ensure compliance. However, we cannot assure you that we will not be subject to penalties or sanctions imposed by applicable law enforcement bodies, if they choose to scrutinize our commission arrangements prior to January 2020 in these jurisdictions despite collectively immaterial contribution of the payments to our revenue. If we become subject to such penalties and sanctions, our operations in these local jurisdictions may be materially disrupted.

Our user metrics and other estimates are subject to inherent challenges in measurement, and real or perceived inaccuracies in those metrics may seriously harm and negatively affect our reputation our business.

We regularly review metrics, including our daily and monthly active users, our paying users, our user next-month retention rate, and our ARPPU, to evaluate growth trends, measure our performance and make strategic decisions. These metrics are calculated using internal company data and have not been validated by an independent third party. While these numbers are based on what we believe to be reasonable estimates for the applicable period of measurement, there are inherent challenges in measuring usage and user engagement across our large user base. We treat each account as a separate user for the purposes of calculating our active users, because it may not always be possible to identify people that have set up more than one account. Accordingly, the calculations of our active users may not accurately reflect the actual number of people using Blued. We are also facing inherent challenges when assessing the geographic distribution of our user base because using their IP addresses and the country or currency in which they download apps or make purchases from the Apple App Store or Google Play Store may not reflect the actual geolocation of users.

Our measures of user growth and user engagement may differ from estimates published by third parties or from similarly titled metrics used by our competitors due to differences in methodology. Errors or inaccuracies in
our metrics could result in incorrect business decisions and inefficiencies. For example, if a significant understatement or overstatement of daily or monthly active users were to occur, we may expend resources to implement unnecessary business measures or fail to take required actions to attract a sufficient number of users to satisfy our growth strategies. If customers, business partners or investors do not perceive our user metrics to be accurate representations of our user base or user engagement, or if we discover material inaccuracies in our user metrics, our reputation may be harmed and customers and business partners may be less willing to allocate their resources or spending to us, which could negatively affect our business and results of operations.

**Our business depends on the strength and perception of our brands within our addressable user community.**

We operate our business under the main brand “BlueCity.” Our mobile app Blued, together with our other products and services within the BlueCity brand family, have received wide recognition among the LGBTQ population in China and certain other geographic areas where we operate, such as India, Korea, Thailand and Vietnam. Starting as a website focused on public wellbeing and HIV prevention, BlueCity has transformed into a community providing a full suite of services empowering LGBTQ persons in all aspects of their daily lives. Over the years, our users have developed a unique culture that distinguishes us from players in the market. Our users come to and stay with our platform owing to their sense of belonging. We therefore believe that maintaining and promoting a healthy and respectful community culture is critical to retaining and expanding our user base. Our business and financial performance are highly dependent on the strength and market perception of our brand. A well-recognized brand is crucial to increasing our user base and, in turn, facilitating our efforts to monetize our products and services and enhancing our attractiveness to users, customers and business partners. From time to time, we conduct various marketing activities both online and offline to enhance our brand and to guide public perception of our brand and services. We may need to substantially increase our marketing expenditures in order to create and maintain brand awareness and brand loyalty, to influence public perception, to retain existing and to attract new users, customers and business partners as well as to promote our products and services. However, there can be no assurance that these activities will be successful or that we will be able to achieve the brand promotion effect we expect.

Since we operate in highly competitive industries, brand maintenance and enhancement directly affect our ability to maintain our market position. We must continuously exercise strict quality control of our platform to ensure that our brand image is not tarnished by substandard products or services. We must also promote and distinguish our platform from those of our competitors. If for any reason we are unable to maintain and enhance our brand recognition, or if we incur excessive expenses in this effort, our business, results of operations and prospect may be materially and adversely affected.

In addition, people may not fully comprehend the value of our platform, and there may be a misperception that our platform is used solely as a tool to start spontaneous relationships with strangers. Convincing potential new users, customers and business partners of the value of our services and our welcoming community culture is critical to increasing the number of our users, customers and business partners and to the success of our business.

**If events occur that damage our reputation and brand, our ability to expand our user base and business partners may be impaired, and our business and results of operations may be materially and adversely affected.**

Since our inception, we and our community have had to fend against social bias and public sentiment, and we are under continuous media scrutiny and governmental supervision. Unfavorable publicity regarding us, our service offerings, our business practices, or our users, business partners, shareholders or competitors and other industry players, even if factually incorrect or based on isolated incidents, could seriously harm our reputation and brand. Such negative publicity could also adversely affect the size, demographics, engagement and loyalty of our user base and result in decreased revenue or slower user growth rate, which could seriously harm our business. There can be no assurance that we will be able to address negative publicity about us, our management and/or our products or services to the satisfaction of our investors, users, customers and business partners. In the
past there had been negative publicity about our company and the misuse of our services, which adversely affected our brand, public image and reputation, and there can be no assurance that there will not be similar negative publicity in the future. Such negative publicity, especially when it is directly addressed against us, may also require us to engage in defensive media campaigns. This may cause us to increase our marketing expenses and divert our management’s attention and may adversely impact our business and results of operations.

Our brand image, business and results of operations may be adversely impacted by user misconduct and misuse of our mobile app Blued.

Our mobile app, Blued, allows users to freely contact and communicate with other users and enable users and broadcasters to interact and engage in various other online activities. In China, we have required all users to complete real-name registration procedures pursuant to the notice jointly issued by National Office of Anti-Pornography and Illegal Publication and other five authorities in August 2018. See also “Regulations—Regulations Relating to Real-Name Registration System.” In countries other than China, our users are not required to complete real-name registration and we are unable to verify the sources of the information posted by our users. In addition, since we have limited control over real-time and offline behavior of our broadcasters and users, Blued may still be misused by users or broadcasters.

We have implemented control procedures on Blued to detect and block illegal or inappropriate content and illegal or fraudulent activities conducted through the misuse of our platform, including inappropriate user profiles, messages and live streams. We may be required by relevant governmental authorities to report certain misbehaviors for further investigation if such misbehaviors are subject to judicial or police investigation. In addition, safety alerts will automatically pop up after a user sends a first message to another user, alerting the recipient to be wary of fraudulent activities. We have also announced the rules of conduct for our broadcasters which are made available on the top of our live streaming page as a banner. Despite all these efforts, we may not be able to identify every incident of inappropriate stream and content, or prevent all such contents from being further disseminated. As a majority of the video and audio communications on our platform are conducted in real time, we cannot filter the content generated by our streamers and users on air before they are streamed on our platform. Therefore, it is possible that broadcasters and users may engage in illegal, obscene or incendiary conversations or activities, including distribution of inappropriate content or content that may be deemed unlawful under applicable laws and regulations on our platform. If any content on our platform is deemed illegal, obscene or incendiary, or if appropriate licenses and third-party consents have not been obtained, claims may be brought against us for torts, defamation, libel, negligence, copyright, patent or trademark infringement, other unlawful activities or other theories and claims based on the nature and content of the information delivered on or otherwise accessed through our platform. In response to allegations of illegal or inappropriate activities conducted through our platform, relevant governmental authorities may intervene and hold us liable for non-compliance with applicable laws and regulations concerning the dissemination of information on the internet and subject us to administrative penalties or other sanctions, such as requiring us to restrict or discontinue some of the features and services provided on our platform. In addition, there were cases where our users suffered or alleged to have suffered physical, financial or emotional harm following contact initiated on our platform, although we have not been subjected to civil lawsuits or other liabilities initiated by the affected users, there can be no assurance that if similar cases occur in the future, we would not face civil lawsuits or other liabilities initiated by the affected user. Our business and public perception of our brand may be materially and adversely affected. Defending any such actions could be costly and require significant time and attention of our management and other resources, which would materially and adversely affect our business.

Although our terms of use strictly prohibit minors from registering and using Blued, some underage users created profiles by misrepresenting their age. In early 2019, there were news reports of minors in China using Blued by registering with false age, and that such minors were exposed to explicit content or alleged to have contracted HIV following contact initiated on Blued. Upon learning of these reports, we promptly and voluntarily halted new user registration for one week to review the allegation and launched a comprehensive content audit of our mobile app. We then announced the measures we have taken and will take to address the issue and reaffirmed
our commitment to protecting minors. New user registration was resumed thereafter. These efforts may not be sufficient to prevent minors from using Blued or our other products and services. If similar events occur, our users may lose trust in us and our reputation may be seriously harmed, and we may be subject to heightened regulatory scrutiny domestically or in overseas jurisdictions, thereby having a material and adverse effect on our business, financial condition and prospects.

Our business, financial condition and results of operations may be materially and adversely affected if we are unable to compete effectively.

We face competition from other platforms that provide products and services to the LGBTQ community, both domestically and internationally. In addition, our users face a vast array of choices in almost every aspect of our business and costs for users to switch between products are low, and users have a propensity to try new approaches whether to connect with people, enjoy live streams of broadcasters or consult other service providers for healthcare related and family planning related matters. As a result, new products, entrants and business models are likely to continue to emerge. It is possible that a new product could gain rapid scale at the expense of existing brands through harnessing a new technology, creating more interesting content or other means. Many of our current and potential competitors have greater resources and broader global recognition and enjoy better competitive positions in certain geographical areas or user demographics that we currently serve or may serve in the future. These advantages could enable these competitors to offer products and services that are more appealing to users than our products and services or to respond more quickly and/or cost-effectively than us to new or changing opportunities. Similarly, existing players in an adjacent or downstream industries may choose to leverage their existing infrastructure and expand their services and compete with us to serve the LGBTQ community. If these players succeed in doing so, our business could be encroached upon by their entrance and adversely affected.

If we fail to compete effectively with our current or future competitors that may emerge, our overall user base and level of user engagement may decrease. We may be required to devote additional resources to further increase our brand recognition and promoting our products and services, and such additional capital expenditure may adversely affect our profitability. Furthermore, if we are involved in disputes with any of our competitors that result in negative publicity to us, such disputes, regardless of their veracity or outcome, may harm our reputation or brand image and in turn lead to reduced number of users and advertisers. Any legal proceedings or measures we take in response to such disputes may be expensive, time-consuming and disruptive to our operations and divert our management’s attention.

We face risks associated with the misconduct of our employees, business partners and their employees and other related personnel.

We rely on our employees to maintain and operate our business and have implemented an internal code of conduct to guide the actions of our employees. However, we do not have control over the actions of our employees, and any misbehavior of our employees could materially and adversely affect our reputation and business. For example, if our employees download pirated software to their work computers or perform other unauthorized actions on our IT system, we may be exposed to security breach. Despite the security measures we have implemented, our systems and procedures and those of our third-party providers, may be vulnerable to security breaches, act of vandalism, software viruses, misplaced or lost data, programming or human errors or other similar events caused by our employees, our business partners and their employees and other related personnel, which may disrupt our delivery of services or expose the identities and confidential information of our users and others. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed, we may lose current and potential users and may be exposed to legal and financial risks, including legal claims, regulatory fines and penalties, which in turn could adversely affect our business, reputation and results of operations.

With respect to employees, we could also in the future face a wide variety of claims, including discrimination (for example, based on gender, age, race or religious affiliation), sexual harassment, privacy, labor
Claims against us, whether meritorious or not, could require significant amounts of management time and corporate resources to defend, could result in significant media coverage and negative publicity, and could be harmful to our reputation and our brand. If any of these claims were to be determined adversely to us, or if we were to enter settlement arrangements, we could be exposed to monetary damages or be forced to change the way in which we operate our business, which could have an adverse effect on our business, financial condition and results of operations.

We also rely on our business partners, including assisted reproductive medical facilities and third-party logistics and delivery companies to directly interact with and serve our users and customers, and their performance is directly associated with our brand. However, we do not directly supervise them in providing services to users and customers. Although we have implemented measures to select business partners with strong reputation and track record, we may not be able to successfully monitor, maintain and improve the quality of their services. In the event of any unsatisfactory performance by our business partners and/or their employees, we or our users may experience disruptions in content or services and our reputation may be materially and adversely affected. For example, the compensation of broadcasters are paid through talent agencies. If any talent agency fails to make payment to the broadcasters, they may lose trust in us and stop live streaming on our platform, they may also disclose such information during live streaming. As a result, our reputation may be materially and adversely affected, we may fail to retain and expand our users, and our business, financial condition and results of operations may be materially and adversely affected.

We organize and train volunteers for HIV prevention initiatives and conduct research studies jointly with third-party institutions. Although we have measures in place to regulate the activities of these volunteers or research institutions to prevent the unauthorized disclosure of private information, we do not directly supervise the volunteers or third-party institutions in how they use the private information. In the event of abusive use or unlawful disclosure of private information involved in this process, our reputation and brand may be seriously harmed, which may in turn materially and adversely affect our business, financial condition and results of operations.

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

We experience seasonality in certain aspects of our business, reflecting seasonal fluctuations in internet usage. As a result, comparing our results of operations on a period-to-period basis may not be meaningful. For example, the number of active users tend to be higher during popular western or Chinese festivals such as Valentine’s Day, Christmas and the Chinese Valentine’s Day, whereas lower during long national holidays. Advertising revenues tend to be higher in June and November, which correlates with marketing campaigns and promotional activities conducted by top e-commerce platforms.

Overall, the historical seasonality of our business has been relatively mild due to our rapid growth but seasonality may increase in the future. Due to our limited operating history, the seasonal trends that we have experienced in the past may not apply to, or be indicative of, our future results of operations. Once our business development has reached a more matured stage, our financial results may reflect seasonal effects owing to the factors mentioned above.

We are dependent on app stores to disseminate our mobile apps.

We offer our social networking service through our Blued mobile app. Our mobile app is offered via smartphone and tablet apps stores operated by third parties, such as Apple App Store and Google Play Store, which could suspend or terminate users’ access to our mobile apps, increase access costs or change the terms of access in a way that makes our apps less desirable or harder to access. As a result, our ability to expand our user base may be hindered if potential users experience difficulties in or are barred from accessing our mobile app. Although historically our mobile app have not been taken down from third-party app stores, there can be no
assurance that such incidents will not occur in the future. Any such incident may adversely affect our brand and reputation, business, financial condition and results of operations.

While our mobile app Blued is free to download from third-party app stores, we provide value-added services comprising a wide variety of additional social features and functions that users pay to use mainly in the form of subscription-based membership services and pay-per-use enhancement functions. We determine the prices at which these memberships services are sold and, in exchange for facilitating the purchase of these membership services through our mobile app to users who download our mobile app from these stores, we pay Apple and Google, as applicable, a certain share of the revenue we receive from these transactions. As the distribution of our mobile application through app stores increases, and given the strict requirements to use the in-app payments systems tied into Apple’s, and to a lesser degree, Google’s distribution services, we may need to offset any further increase in fees charged by app stores by decreasing traditional marketing expenditures as a percentage of revenue, increasing user volume or monetization per user, or by engaging in other efforts to increase revenue or decrease costs generally, otherwise our business, financial condition and results of operations could be adversely affected.

User growth and engagement depend upon effective interoperation with mobile operating systems, hardware, networks, regulations and standards that we do not control.

Our mobile app Blued must remain interoperable with popular mobile operating systems, such as iOS and Android, and related hardware. We have no control over these operating systems or hardware, and any changes to these systems or hardware that degrade the functionality of our products and services, or give preferential treatment to competitive products, could seriously harm usage of our mobile app. We plan to continue to introduce new products regularly and have experienced that it takes time to optimize such products to function with these operating systems and hardware, impacting the popularity of such products, and we expect this trend to continue.

To deliver high quality products and services, it is crucial that our products and services work well with a range of mobile technologies, systems, networks, regulations and standards that we do not control. In particular, any future changes to the iOS or Android operating systems may impact the accessibility, speed, functionality and other performance aspects of our products and services, which issues are likely to occur in the future from time to time. In addition, the adoption of any laws or regulations that adversely affect the growth, popularity or use of the internet, including laws governing internet neutrality, could decrease the demand for our products and increase our cost of doing business.

We may fail to successfully cultivate relationships with key industry participants or develop products and services that operate effectively with these technologies, systems, networks, regulations or standards. If it becomes more difficult for our users to access and use our app on their mobile devices, if our users choose not to access or use our app on their mobile devices, or if our users choose to use mobile products that do not offer access to our app, our user growth, retention, and engagement could be seriously harmed.

If the software used by our platform and internal systems contains undetected programming errors or vulnerabilities, our business could be adversely affected.

Our mobile platform and internal systems rely on software, including software developed or maintained internally and/or by third parties. In addition, our mobile platform and internal systems depend on the ability of such software to store, retrieve, process and manage immense amounts of data. The software on which we rely in the past has contained, and may now or in the future contain, undetected programming errors, bugs, or vulnerabilities. Some errors may only be discovered after the code has been released for external or internal use. Errors, vulnerabilities, or other design defects within the software on which we rely may result in a negative experience for users using our mobile platform, delay introductions of new features or enhancements, result in errors or compromise our ability to protect the data of our users and/or our intellectual property or lead to
reductions in our ability to provide some or all of our services. In addition, any errors, bugs, vulnerabilities, or defects discovered in the software on which we rely, and any associated degradations or interruptions of service, could result in harm to our reputation and loss of users, which could adversely affect our business, financial condition and operation results.

Our business is sensitive to economic conditions. A severe or prolonged downturn in the global or Chinese economy could materially and adversely affect our business, financial condition and results of operations.

The global macroeconomic environment is facing challenges, including the end of quantitative easing by the U.S. Federal Reserve, the expected exit of the United Kingdom from the European Union and the recent trade disputes between China and the U.S. The Chinese economy has slowed down since 2012 and such slowdown may continue. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world’s leading economies, including the United States and China. There have been concerns over unrest and terrorist threats in the Middle East, Europe and Africa, which have resulted in volatility in oil and other markets, and over the conflicts involving Ukraine, Syria and North Korea. There have also been concerns on the relationship among China and other Asian countries, which may result in or intensify potential conflicts in relation to territorial disputes. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations and financial condition. In addition, continued turbulence in the international markets may adversely affect our ability to access capital markets to meet liquidity needs.

Our failure to protect our intellectual property rights may undermine our competitive position, and third-party infringements of our intellectual property rights may adversely affect our business.

We believe that our copyrights, trademarks and other intellectual property are essential to our success. See also “Business—Intellectual Property.” We have devoted considerable time and energy to the development and improvement of our mobile app and our system infrastructure.

We rely on a combination of copyright and trademarks laws, trade secrets protection and other contractual restrictions for the protection of the intellectual property used in our business. For example, we have generally registered and continue to apply to register and renew, or secure by contract where appropriate, trademarks and service marks as they are developed. Effective trademark protection may not be available or may not be sought in every country in which our products are made available, and contractual disputes may affect the use of marks governed by private contract. Although our contracts with users and business partners typically prohibit the unauthorized use of our brands, images, characters and other intellectual property rights, there can be no assurance that they will always comply with these terms. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. Although we enter into confidentiality agreements with our employees which also include intellectual property ownership provisions, these confidentiality agreements could be breached, we may not have adequate remedies for any breach, and our proprietary technology, know-how or other intellectual property could otherwise become known to third parties. In addition, third parties may independently discover trade secrets and proprietary information, limiting our ability to assert any trade secret rights against such parties.

While we actively take steps to protect our proprietary rights, such steps may not be adequate to prevent the infringement or misappropriation of our intellectual property. In addition, there can be no assurance that any of our trademark applications will ultimately proceed to registration or will result in registration with adequate scope for our business. Some of our pending applications or registrations may be successfully challenged or invalidated by others. If our trademark applications are not successful, we may have to use different marks for affected products or services, or seek to enter into arrangements with any third parties who may have prior registrations, applications or rights, which might not be available on commercially reasonable terms, if at all.
Implementation of intellectual property laws in China has historically been lacking, primarily because of ambiguities in the laws and difficulties in enforcement. Accordingly, intellectual property right protection in China may not be as effective as in other jurisdictions that have a more developed legal framework regulating intellectual property rights. Policing unauthorized use of our proprietary technology, trademarks and other intellectual property is difficult and expensive, and litigation may be necessary in the future to enforce our intellectual property rights. Future litigation could result in substantial costs and diversion of our resources, and could disrupt our business, as well as materially adversely affect our financial condition and results of operations.

We have been and may be subject to intellectual property infringement claims or other allegations by third parties, which may materially and adversely affect our business, financial condition and prospects.

We have been and may in the future be subject to intellectual property infringement claims or other allegations by third party owners or right holders of technology patents, copyrights, trademarks, trade secrets and website content for services we provide or for information or content displayed on, retrieved from or linked to, recorded, stored or made accessible on our platform, or otherwise distributed to our users, including in connection with the music, movies and videos played, recorded, stored or made accessible on our platform during live-streaming or advertisement display, which may materially and adversely affect our business, financial condition and prospects.

Under our agreements with talent agencies, we obtain the intellectual property arising from live-streaming on our platform. We have implemented internal control measures to ensure that the design of our platform and the content that is streamed on it does not infringe on valid intellectual property, such as patents and copyrights held by third parties. We also license certain intellectual properties from third parties to implement certain functions available on our platform.

However, companies in the internet-related industries are frequently involved in litigation based on allegations of infringement of intellectual property rights, unfair competition, invasion of privacy, defamation and other violations of other parties’ rights. The validity, enforceability and scope of protection of intellectual property rights in internet-related industries, particularly in China, are uncertain and still evolving. As we face increasing competition and as litigation becomes a more common method for resolving commercial disputes in China, we face a higher risk of being the subject of intellectual property infringement claims or other legal proceedings.

We allow users and broadcasters to upload text, pictures, audio, video and other content to our platform and users to download, share, link to and otherwise access other content on our platform. Under relevant PRC laws and regulations, online service providers, which provide storage space for users to upload works or links to other services or content, could be held liable for copyright infringement under various circumstances, including situations where the online service provider knows or should reasonably have known that the relevant content uploaded or linked to on its platform infringes upon the copyright of others and the online service provider failed to take necessary actions to prevent such infringement. We have procedures implemented to reduce the likelihood that content might be used without proper licenses or third-party consents. However, these procedures may not be effective in preventing the unauthorized posting or distribution of copyrighted content and we may be considered failing to take necessary actions against such infringement. Therefore, we may face liability for copyright or trademark infringement, defamation, unfair competition, libel, negligence, and other claims based on the nature and content of the materials that are delivered, shared or otherwise accessed through our platform.

Defending claims is costly and can impose a significant burden on our management and employees, and there can be no assurance that favorable final outcomes will be obtained in all cases. Such claims, even if they do not result in liability, may harm our reputation. Any resulting liability or expenses, or changes required to our platform to reduce the risk of future liability, may have a material adverse effect on our business, financial condition and prospects.
Some of our products and services contain open source software, which may pose particular risk to our proprietary software, products and services in a manner that negatively affect our business.

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

Furthermore, because any software source code we contribute to open source projects is publicly available, our ability to protect our intellectual property rights with respect to such software source code may be limited or lost entirely. As a result, we may be unable to prevent our competitors or others from using such software source code contributed by us.

Our business depends substantially on the continuing efforts of our executive officers and other key employees. If we lose their services, our business operations and growth prospects may be materially and adversely affected.

Our future success depends heavily on the continuing services of our executive officers and other key employees. In particular, we rely on the expertise, experience and vision of our founder and chief executive officer, Mr. Baoli Ma, as well as other members of our senior management team. If one or more of our executive officers or key employees were unable or unwilling to continue their services with us, we might not be able to replace them easily, in a timely manner, or at all. Competition for qualified talent is intense, there can be no assurance that we will be able to attract or retain qualified employees. As a result, our business may be materially and adversely affected, our financial condition and results of operations may be severely affected, and we may incur additional expenses to recruit, train and retain key personnel.

Moreover, if any of our executive officers or other key employees joins a competitor or forms a competing company, we may lose know-how, trade secrets, business partners, user base and market share. Each of our executive officers and key employees has entered into an employment agreement and a non-compete agreement. However, the non-competition agreements may be deemed invalid or unenforceable under PRC laws. If any dispute arises between our executive officers and key employees and us, there can be no assurance that we would be able to enforce these non-compete agreements in China, where these executive officers and key employees reside.

We are subject to risks relating to third-party online payment platforms embedded in app stores.

Currently, we sell a significant portion of our products and services to our users through third-party online payment systems embedded in app stores. In all these online payment transactions, secured transmission of confidential information such as paying users’ credit card numbers and personal information over public networks is essential to maintaining users’ trust and confidence on our platform.

We do not have control over the security measures of our third-party online payment vendors. Any security breaches of the online payment systems that we use could expose us to litigation and possible liability for failing to secure confidential customer information and could, among other things, damage our reputation and the perceived security of all of the online payment systems that we use. If a well-publicized internet or mobile network security breach were to occur, users may become reluctant to purchase our products and services even if the publicized breach did not involve payment systems or methods used by us. In addition, there may be billing
software errors that would damage customer confidence in these online payment systems. If any of the above were to occur and damage our reputation or the perceived security of the online payment systems we use, we may lose paying users and users may be discouraged from purchasing our products and services, which may have a material adverse effect on our business.

In addition, there are currently only a limited number of reputable third-party online payment systems in China and certain other countries where we operate. If any of these major payment systems decides to cease to provide services to us, or significantly increase the percentage they charge us for using their payment systems for our products and services, our results of operations may be materially and adversely affected.

Present or future strategic alliances or acquisitions may fail and our business, reputation and results of operations may be materially and adversely affected.

We may enter into strategic alliances, including joint ventures or minority equity investments, with various third parties to further our business purpose from time to time. These alliances could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by the third party and increased expenses in establishing new strategic alliances, any of which may materially and adversely affect our business. We may have limited ability to monitor or control the actions of these third parties and, to the extent any of these strategic third parties suffers negative publicity or harm to their reputation from events relating to their business, we may also suffer negative publicity or harm to our reputation by virtue of our association with any such third party.

In addition, although we have no current acquisition plans, if appropriate opportunities arise, we may acquire additional assets, products, technologies or businesses that are complementary to our existing business. Future acquisitions and the subsequent integration of new assets and businesses into our own would require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our business operations. Acquisitions may not achieve our goals and could be viewed negatively by users, advertisers, partners or investors. Acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, the occurrence of significant goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business. Moreover, the costs of identifying and consummating acquisitions may be significant. In addition to possible shareholders’ approval, we may also have to obtain approvals and licenses from relevant governmental authorities for the acquisitions and to comply with any applicable PRC laws and regulations, which could result in increased delay and costs.

We may not have sufficient insurance to cover our business risks, so that any uninsured occurrence of business disruption may result in substantial costs to us and the diversion of our resources, which could have an adverse effect on our results of operations and financial condition.

We have obtained insurance to cover certain potential risks and liabilities, such as property all risks insurance to cover physical loss of or damage to the insured property and digital business and data protection insurance to cover losses due to privacy breach, confidentiality breach, cyber extortion threat, business interruption event, unavailability of our computer system, cyberattact or wrongful act. However, we may not be able to acquire any insurance for certain types of risks such as business liability to cover our operations and our coverage may not be adequate to compensate for all losses that may occur, particularly with respect to loss of business or operations. Any business disruption, litigation, regulatory action, outbreak of epidemic disease or natural disaster could also expose us to substantial costs and diversion of resources. There can be no assurance that our insurance coverage is sufficient to prevent us from any loss or that we will be able to successfully claim our losses under our current insurance policies on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business, financial condition and results of operations could be materially and adversely affected.
If we fail to implement and maintain an effective system of internal controls over financial reporting, we may be unable to accurately report our results of operations or prevent fraud or fail to meet our reporting obligations, and investor confidence and the market price of our ADSs may be materially and adversely affected.

Prior to this offering, we were a private company with limited accounting personnel and other resources with which to address our internal controls and procedures. Our management has not completed an assessment of the effectiveness of our internal control over financial reporting, and our independent registered public accounting firm has not conducted an audit of our internal control over financial reporting. In auditing our consolidated financial statements for the fiscal year ended December 31, 2019, we and our independent registered public accounting firm identified one material weakness in our internal control over financial reporting as well as other control deficiencies as of December 31, 2019, in accordance with the standards established by the Public Company Accounting Oversight Board of the United States (PCAOB).

The material weakness identified related to our lack of sufficient financial reporting and accounting personnel with appropriate knowledge of U.S. GAAP and SEC reporting requirements to properly address complex U.S. GAAP accounting issues and related disclosures in accordance with U.S. GAAP and financial reporting requirements set forth by the SEC. Following the identification of the material weakness and other control deficiencies, we have taken measures and plan to continue to take measures to remedy these control deficiencies. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Internal Control Over Financial Reporting.” However, the implementation of these measures may not fully address these deficiencies in our internal control over financial reporting, and we cannot conclude that they have been fully remedied. Our failure to correct these control deficiencies or our failure to discover and address any other control deficiencies could result in inaccuracies in our financial statements and impair our ability to comply with applicable financial reporting requirements and related regulatory filings on a timely basis. Moreover, ineffective internal control over financial reporting could significantly hinder our ability to prevent fraud.

Upon completion of this offering, we will become a public company in the United States subject to the Sarbanes-Oxley Act of 2002. Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, will require that we include a report of management on our internal control over financial reporting in our annual report on Form 20-F beginning with our annual report for the fiscal year ending December 31, 2021. In addition, once we cease to be an “emerging growth company” as such term is defined in the JOBS Act, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. Our management may conclude that our internal control over financial reporting is not effective. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm, after conducting its own independent testing, may issue a report that is qualified if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. In addition, after we become a public company, our reporting obligations may place a significant strain on our management, operational and financial resources and systems for the foreseeable future. We may be unable to timely complete our evaluation testing and any required remediation.

During the course of documenting and testing our internal control procedures, in order to satisfy the requirements of Section 404, we may identify other weaknesses and deficiencies in our internal control over financial reporting. In addition, if we fail to maintain the adequacy of our internal control over financial reporting, as these standards are modified, supplemented or amended from time to time, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. If we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could in turn limit our access to capital markets, harm our results of operations, and lead to a decline in the trading price of our ADSs. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or
We have granted and expect to continue to grant share-based awards in the future under our share incentive plan, which may result in increased share-based compensation expenses.

We adopted the 2015 stock incentive plan, or the 2015 Plan, on March 11, 2015, for purposes of granting share-based compensation awards to employees, directors and consultants to incentivize their performance and align their interests with ours. We account for compensation costs for all share options using a fair-value based method and recognize expenses in our consolidated statements of comprehensive loss in accordance with U.S. GAAP. Under the 2015 Plan, we are authorized to grant options to purchase ordinary shares of our company and restricted share units to receive ordinary shares. The maximum number of ordinary shares which may be issued pursuant to all awards under the 2015 Plan is 1,551,724. As of the date of this prospectus, options to purchase a total of 1,061,042 ordinary shares have been granted and are outstanding with the exercise of such options conditional upon the completion of this offering. For the year ended December 31, 2018, we recorded share-based compensation of RMB50.3 million as a result of our repurchase of unvested share options from our management with consideration of US$8.0 million in April 2018. We did not record share-based compensation expenses for the year ended December 31, 2019.

We believe the granting of share incentive awards is of significant importance to our ability to attract and retain employees, and we will continue to grant share incentive awards to employees in the future. As a result, our expenses associated with share-based compensation may increase, which may have an adverse effect on our results of operations.

We may be the subject of allegations, harassing or other detrimental conduct by third parties, which could harm our reputation and cause us to lose market share, users and customers.

We have been subject to allegations by third parties or purported former employees, negative internet postings and other adverse public exposure on our business, operations and staff compensation. We may also become the target of harassment or other detrimental conduct by third parties or disgruntled former or current employees. Such conduct may include complaints, anonymous or otherwise, to regulatory agencies, media or other organizations. We may be subject to government or regulatory investigations or other proceedings as a result of such third-party conduct and may be required to spend significant time and incur substantial costs to address such third-party conduct, and there is no assurance that we will be able to conclusively refute each of the allegations within a reasonable period of time, or at all. Additionally, allegations, directly or indirectly against us, may be posted on the internet, including social media platforms by anyone, whether or not related to us, on an anonymous basis. Any negative publicity on us or our management can be quickly and widely disseminated. Information posted may be inaccurate and adverse to us, and it may harm our reputation, business or prospects. The harm may be immediate without affording us an opportunity for redress or correction. Our reputation may be negatively affected as a result of the public dissemination of negative and potentially false information about our business and operations, which in turn may cause us to lose market share, users or customers.

Computer and mobile malware, viruses, hacking and phishing attacks, spamming and improper or illegal use of our platform may affect user experience, which could reduce our ability to attract users and advertisers and materially and adversely affect our business, financial condition and results of operations.

Computer and mobile malware, viruses, hacking and phishing attacks have become more prevalent in our industries, have occurred on our platform in the past, and may occur again in the future. Although it is difficult to determine what, if any, direct harm may result from an interruption or attack, any failure to maintain performance, reliability, security and availability of our products and technical infrastructure to the satisfaction of our users may seriously harm our reputation and our ability to retain existing users and attract new users. We
have not had any material cybersecurity incidents or incurred or expected to incur any material related costs during the period from January 1, 2018 to the date of this prospectus.

In addition, spammers may use our platform to send targeted and untargeted spam messages to users, which may affect user experience. In spamming activities, spammers typically create multiple user accounts for the purpose of sending spam messages. Although we attempt to identify and delete accounts created for spamming purposes, we may not be able to effectively eliminate all spam messages from our platform in a timely fashion. Our actions to combat spam may also require diversion of significant time and focus of our engineering team from improving our products. As a result, our users may use our products less or stop using them altogether, and result in continuing operational costs to us.

We are subject to anti-corruption, anti-bribery, anti-money laundering, financial and economic sanctions and similar laws, and noncompliance with such laws can subject us to administrative, civil and criminal fines and penalties, collateral consequences, remedial measures and legal expenses, all of which could adversely affect our business, results of operations, financial condition and reputation.

We are subject to anti-corruption, anti-bribery, anti-money laundering, financial and economic sanctions and similar laws and regulations in various jurisdictions in which we conduct activities, including the U.S. Foreign Corrupt Practices Act, or FCPA, and other anti-corruption laws and regulations. Those laws generally prohibit us and our officers, directors, employees and business partners acting on our behalf, including agents, from corruptly offering, promising, authorizing or providing anything of value to a “foreign official” for the purposes of influencing official decisions or obtaining or retaining business or otherwise obtaining favorable treatment. The FCPA also requires companies to make and keep books, records and accounts that accurately reflect transactions and dispositions of assets and to maintain a system of adequate internal accounting controls. A violation of these laws or regulations could adversely affect our business, results of operations, financial condition and reputation.

We will adopt and implement policies and procedures designed to ensure compliance by us and our directors, officers, employees, representatives, consultants, agents and business partners with applicable anti-corruption, anti-bribery, anti-money laundering, financial and economic sanctions and similar laws and regulations. However, our policies and procedures may not be sufficient and our directors, officers, employees, representatives, consultants, agents, business partners, and users could engage in improper conduct for which we may be held responsible.

Non-compliance with anti-corruption, anti-bribery, anti-money laundering or financial and economic sanctions laws could subject us to whistleblower complaints, adverse media coverage, investigations, and severe administrative, civil and criminal sanctions, collateral consequences, remedial measures and legal expenses, all of which could materially and adversely affect our business, results of operations, financial condition and reputation. In addition, changes in economic sanctions laws in the future could adversely impact our business and investments in our shares.

If we cannot maintain our corporate culture as we grow, we could lose the innovation, collaboration and focus that contribute to our business.

We believe that a critical component of our success is our corporate culture, we are comprised of a group of passionate team players, dedicated to bring value to the LGBTQ community. Powered by technological innovation and global expansion, we endeavor to become a platform where the LGBTQ community can find a sense of belonging and enjoy the high-quality products and services we provide. Any failure to preserve our culture could undermine our reputation in the marketplace and negatively impact our ability to retain existing customers and attract new customers, which would in turn jeopardize our future success.
We face risks related to natural and other disasters, including severe weather conditions or outbreaks of health epidemics, and other extraordinary events, which could significantly disrupt our operations.

We are vulnerable to natural disasters and other calamities. It is possible that we may be unable to recover certain data in the event of a server failure. There can be no assurance that any backup systems will be adequate to protect us from the effects of fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, riots, terrorist attacks or similar events. Any of the foregoing events may give rise to server interruptions, breakdowns, system failures, technology platform failures or internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware as well as adversely affect our ability to provide services on our platform.

In addition, our business could be affected by public health epidemics, such as the outbreak of avian influenza, severe acute respiratory syndrome, or SARS, Zika virus, Ebola virus or other disease. If any of our employees is suspected of having contracted a contagious disease, we may be required to apply quarantines or suspend our operations. Furthermore, any future outbreak may restrict economic activities in affected regions, resulting in reduced business volume, temporary closure of our offices or otherwise disrupt our business operations and adversely affect our results of operations.

We may need additional capital, and we may be unable to obtain such capital in a timely manner or on acceptable terms, or at all.

To pursue our business objectives and respond to business opportunities, challenges or unforeseen circumstances, including to improve our brand awareness, develop new services or further improve existing services, expand into new geographic areas and acquire complementary businesses and technologies, we may require additional capital from time to time. However, additional funds may not be available when we need them on reasonable terms, or at all. Our ability to obtain additional capital is subject to a variety of uncertainties, including:

- our market position and competitiveness in the LGBTQ-focused social, entertainment and health industries;
- our future profitability, overall financial condition, results of operations and cash flows;
- general market conditions for capital raising activities by online social networking and live streaming platforms and other internet companies in China; and
- economic, political and other conditions in China and internationally.

If we are unable to obtain additional capital in a timely manner or on acceptable terms, or at all, our ability to continue to pursue our business objectives and respond to business opportunities, challenges or unforeseen circumstances could be significantly limited, and our business, results of operations, financial condition and prospects could be materially and adversely affected. In addition, our future capital needs and other business reasons could require us to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity or equity-linked securities could dilute our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations or our ability to pay dividends to our shareholders.

Foreign currency exchange rate fluctuations could adversely affect our results of operations.

We operate in various international markets, primarily in various jurisdictions within Asia. In December 2019, more than 40% of our MAUs were outside of China. As we continue our efforts to monetize our user outside of China, we expect our revenues outside of China will continue to grow. We translate international revenues into RMB-denominated results of operations. As a result, we expect foreign currency exchange rate fluctuations will affect the period-over-period comparison of our results of operations as the results of our
subsidiaries outside China are translated into RMB, our reporting currency. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures About Market Risk—Foreign Currency Exchange Risk.”

Historically, we have not hedged any foreign currency exposures. The continued growth and expansion of our international operations into new countries increases our exposure to foreign exchange rate fluctuations. Significant foreign exchange rate fluctuations, in the case of one currency or collectively with other currencies, could adversely affect our future results of operations.

Risks Related to Our Corporate Structure

If the PRC government finds that the agreements that establish the structure for operating some of our operations in China do not comply with PRC regulations relating to the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.

Foreign ownership of certain parts of our businesses, including value-added telecommunications services, is subject to restrictions under current PRC laws and regulations. For example, foreign investors are not allowed to own more than 50% of the equity interests in a value-added telecommunication service provider (excluding e-commerce, domestic multi-party communication, store-and-forward, and call center) and any such foreign investor must have experience in providing value-added telecommunications services overseas and maintain a good track record, and foreign investors are prohibited from engaging in the internet audiovideo program service and internet culture operation (except for music) in accordance with Special Management Measures for the Market Entry of Foreign Investment (Negative List) (2019 Version), or the 2019 Negative List.

We are a Cayman Islands company and our WFOE is considered foreign-invested enterprises. Accordingly, our WFOE is not eligible to operate value-added telecommunication business, internet video, online advertising services and other businesses which foreign-owned companies are prohibited or restricted from conducting in China. As a result, we conduct such business activities through our VIE and its subsidiaries. Our VIE holds an ICP License for internet information service (excluding news, publication, education, medical and healthcare, drug and medical instruments, electronic publication services), and an internet culture operation license for operating music products and shows. Each of Mr. Baoli Ma, our founder and chief executive officer, and Mr. Changyou Ma, a family member of our founder, holds 99.15% and 0.85% equity interests in our VIE, respectively.

Our WFOE has entered into a series of contractual arrangements with our VIE and its shareholders, which enables us to:

• exercise effective control over our VIE;
• receive substantially all of the economic benefits of our VIE; and
• have an exclusive option to purchase all or part of the equity interests in our VIE when and to the extent permitted by PRC law.

As a result of these contractual arrangements, we have control over and are the primary beneficiary of our VIE and hence consolidate its financial results and its subsidiaries into our consolidated financial statements under U.S. GAAP. For a detailed discussion of these contractual arrangements, see “Corporate History and Structure.”

In the opinion of King & Wood Mallesons, our PRC legal counsel, (i) the ownership structures of our WFOE and our VIE in China, both currently and immediately after giving effect to this offering, are not in violation of PRC laws and regulations currently in effect; and (ii) the contractual arrangements between our WFOE, our VIE and its shareholders governed by PRC law are legal, valid, binding and enforceable against each party thereto in accordance with their terms and applicable PRC laws and regulations currently in effect. However, our PRC legal counsel has also advised us that there are substantial uncertainties regarding the
interpretation and application of current and future PRC laws, regulations and rules; accordingly, the PRC regulatory authorities may take a view that is contrary to the opinion of our PRC legal counsel. It is uncertain whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. If we or our VIE are found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures, including:

- revoking the business licenses and/or operating licenses of such entities;
- discontinuing or placing restrictions or onerous conditions on our operations;
- imposing fines, confiscating the income from our WFOE or our VIE, or imposing other requirements with which we or our VIE may not be able to comply;
- requiring us to restructure our ownership structure or operations, including terminating the contractual arrangements with our VIE and deregistering the equity pledges of our VIE, which in turn would affect our ability to consolidate, derive economic interests from, or exert effective control over our VIE, or imposing restrictions on our right to collect revenues;
- shutting down our servers or blocking our app/websites;
- imposing additional conditions or requirements with which we may not be able to comply;
- requiring us to restructure the operations in such a way as to compel us to establish a new enterprise, re-apply for the necessary licenses or relocate our businesses, staff and assets; or
- restricting or prohibiting our use of the proceeds of this offering to finance our business and operations in China.

The imposition of any of these penalties would result in a material and adverse effect on our ability to conduct our business. 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 VIE in our consolidated financial statements, if the PRC governmental authorities were to find our legal structure and contractual arrangements to be in violation of PRC laws and regulations. If the imposition of any of these government actions causes us to lose our right to direct the activities of our VIE or our right to receive substantially all the economic benefits and residual returns from our VIE and we are not able to restructure our ownership structure and operations in a satisfactory manner, we would no longer be able to consolidate the financial results of our VIE in our consolidated financial statements. Either of these results, or any other significant penalties that might be imposed on us in this event, would have a material adverse effect on our financial condition and results of operations.

Furthermore, it is uncertain whether any new PRC laws, rules or regulations relating to contractual arrangements will be adopted or if adopted, what they would provide. In particular, in December 2018, the standing committee of the National People’s Congress reviewed a draft Foreign Investment Law, and this draft was subsequently published for public comment. In March 2019, a new draft of Foreign Investment Law was submitted to the National People’s Congress for review and was approved on March 15, 2019, which will come into effect from January 1, 2020. The approved Foreign Investment Law does not touch upon the relevant concepts and regulatory regimes that were historically suggested for the regulation of VIE structures, and thus this regulatory topic remains unclear under the Foreign Investment Law. Since the Foreign Investment Law is new, there are substantial uncertainties exist with respect to its implementation and interpretation and it is also possible that variable interest entities will be deemed as foreign invested enterprises and be subject to restrictions in the future. Such restrictions may cause interruptions to our operations, products and services and may incur additional compliance cost, which may in turn materially and adversely affect our business, financial condition and results of operations.

Any of these events could cause significant disruption to our business operations and severely damage our reputation, which would in turn materially and adversely affect our business, financial condition and results of
operations. If occurrences of any of these events results in our inability to direct the activities of our consolidated affiliated entities in China 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 the entity in our consolidated financial statements in accordance with U.S. GAAP.

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

On March 15, 2019, the National People’s Congress approved the Foreign Investment Law, which will come into effect on January 1, 2020 and replace the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. See “Regulation—Regulations Relating to Foreign Investment” for further details. The Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, since it is relatively new, uncertainties still exist in relation to its interpretation and implementation. For instance, under the Foreign Investment Law, “foreign investment” refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in China. Though it does not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangement would not be interpreted as a type of indirect foreign investment activities under the definition in the future. In addition, the definition contains a catch-all provision which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a form of foreign investment. On November 1, 2019, Ministry of Justice, the Ministry of Commerce of the People’s Republic of China, or MOFCOM, and the National Development and Reform Commission, or NDRC, published a discussion draft of the Implementation Rules of Foreign Investment Law, or the Draft FIL Implementation Rules, for public review and comment. Although the Draft FIL Implementation Rules remains silent on how to define and regulate the “variable interest entities,” there is no assurance that the enacted version of the Implementation Rules of Foreign Investment Law would not treat contractual arrangements as a form of foreign investment. In any of these cases, it will be uncertain whether our contractual arrangements will be deemed to be in violation of the market access requirements for foreign investment under the PRC laws and regulations. Furthermore, if future laws, administrative regulations or provisions prescribed by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we 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, corporate governance and business operations.

We rely on contractual arrangements with our VIE and its shareholders for a portion of our business operations, which may not be as effective as direct ownership in providing operational control.

Our VIE contributed a portion of our consolidated total revenues for the years ended December 31, 2018 and 2019, respectively. We have relied and expect to continue to rely on contractual arrangements with our VIE and its shareholders to conduct our business. For a description of these contractual arrangements, see “Corporate History and Structure.” These contractual arrangements may not be as effective as direct ownership in providing us with control over our VIE. For example, our VIE and its shareholders could breach their contractual arrangements with us by, among other things, failing to conduct their operations in an acceptable manner or taking other actions that are detrimental to our interests.

If we had direct ownership of our VIE, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of our VIE, which in turn could effect changes, subject to any applicable
fiduciary obligations, at the management level. However, under the current contractual arrangements, we rely on the performance by our VIE and its shareholders of their obligations under the contracts to exercise control over our VIE. The shareholders of our VIE may not act in the best interests of our company or may not perform their obligations under these contracts. Such risks exist throughout the period in which we intend to operate our business through the contractual arrangements with our VIE. If any dispute relating to these contracts remains unresolved, we will have to enforce our rights under these contracts through the operations of PRC law and courts and therefore will be subject to uncertainties in the PRC legal system. See “—Any failure by our VIE or its shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business.” Therefore, our contractual arrangements with our VIE may not be as effective in ensuring our control over the relevant portion of our business operations as direct ownership would be.

Any failure by our VIE or its shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business.

If our VIE or its shareholders fail to perform their respective obligations under the contractual arrangements, we may have to incur substantial costs and expend additional resources to enforce such arrangements. We may also have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, which may be unsuccessful. For example, if the shareholders of our VIE were to refuse to transfer their equity interest in our VIE to us or our designee when we exercise the purchase option pursuant to these contractual arrangements, or if they were otherwise to act in bad faith toward us, we may have to take legal actions to compel them to perform their contractual obligations.

All of the agreements under our contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal system in China is not as developed as in some other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. See “Risks Related to Doing Business in China—Uncertainties in the interpretation and enforcement of Chinese laws and regulations could limit the legal protections available to you and us.” Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a variable interest entity should be interpreted or enforced under PRC law, and as a result it may be difficult to predict how an arbitration panel would view such contractual arrangements. Additionally, under PRC law, rulings by arbitrators are final, parties cannot appeal the arbitration results in courts, and if the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay.

Our VIE holds our ICP License for internet information service (excluding news, publication, education, medical and healthcare, drug and medical instruments, electronic publication services), an internet culture operation license for operating music products and shows, a radio and television programs production and management license for animations, feature films, TV variety shows (excluding political news and similar features and columns). In the event we are unable to enforce our contractual arrangements, we may not be able to exert effective control over our VIE, and our ability to conduct these businesses may be negatively affected.

The shareholders of our VIE may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

The shareholders of our VIE may have potential conflicts of interest with us. For example, Mr. Baoli Ma is one of the shareholders of our VIE. Mr. Baoli Ma is also our founder and chief executive officer. Any shareholder of our VIE may breach, or cause our VIE to breach, or refuse to renew, the existing contractual arrangements we have with any of them and our VIE, which would have a material and adverse effect on our
ability to effectively control our VIE and receive substantially all the economic benefits from them. For example, the shareholders may be able to cause our agreements with our VIE to be performed in a manner adverse to us by, among other things, failing to remit payments due under the contractual arrangements to us on a timely basis. There can be no assurance that when conflicts of interest arise, any or all of these shareholders will act in the best interests of our company or such conflicts will be resolved in our favor.

Currently, we do not have any arrangements to address potential conflicts of interest between these shareholders and our company, except that we could exercise our purchase option under the exclusive option agreements with these shareholders to request them to transfer all of their equity interests in the VIE to a PRC entity or individual designated by us, to the extent permitted by PRC law. For individuals who are also our directors and officers, we rely on them to abide by the laws of the Cayman Islands, which provide that directors and officers owe a fiduciary duty to the company that requires them to act in good faith and in what they believe to be the best interests of the company and not to use their position for personal gains. The shareholders of our VIE have executed shareholders’ voting rights proxy agreement to appoint our WFOE or a person designated by our WFOE to vote on their behalf and exercise voting rights as shareholders of our VIE. If we cannot resolve any conflict of interest or dispute between us and the shareholders of our VIE, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

The shareholders of our VIE may be involved in personal disputes with third parties or other incidents that may have an adverse effect on their respective equity interests in the relevant VIE and the validity or enforceability of our contractual arrangements with the relevant entity and its shareholders. For example, in the event that any of the shareholders of our VIE divorces his or her spouse, the spouse may claim that the equity interest of the relevant VIE held by such shareholder is part of their community property and should be divided between such shareholder and his or her spouse. If such claim is supported by the court, the relevant equity interest may be obtained by the shareholder’s spouse or another third party who is not subject to obligations under our contractual arrangements, which could result in a loss of the effective control over the relevant VIE by us. Similarly, if any of the equity interests of our VIE is inherited by a third party with whom the current contractual arrangements are not binding, we could lose our control over the relevant VIE or have to maintain such control by incurring unpredictable costs, which could cause significant disruption to our business and operations and harm our financial condition and results of operations.

Contractual arrangements in relation to our VIE may be subject to scrutiny by the PRC tax authorities and they may determine that we or our VIE owe additional taxes, which could negatively affect our financial condition and the value of your investment.

Under applicable 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 VIE contractual arrangements were not entered into on an arm’s-length basis in such a way as to result in an impermissible reduction in taxes under applicable PRC laws, rules and regulations, and adjust the income of our VIE in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction of expense deductions recorded by our VIE for PRC tax purposes, which could in turn increase its tax liabilities. In addition, the PRC tax authorities may impose punitive interest on our VIE for the adjusted but unpaid taxes at the rate of 5% over the basic RMB lending rate published by the People’s Bank of China for a period according to the applicable regulations. Our financial position could be materially and adversely affected if our VIE’s tax liabilities increase or if it is required to pay punitive interest.

We may lose the ability to use and enjoy assets held by our VIE that are material to the operation of certain portion of our business if the VIE goes bankrupt or become subject to a dissolution or liquidation proceeding.

As part of our contractual arrangements with our VIE, our VIE and its subsidiaries hold certain assets that are material to the operation of certain portion of our business. If our VIE goes bankrupt and all or part of its
assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. Under the contractual arrangements, neither our VIE nor the shareholders of our VIE may not, in any manner, sell, transfer, mortgage or dispose of their assets or legal or beneficial interests in the business without our prior consent. If our VIE undergoes a voluntary or involuntary liquidation proceeding, independent third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

—if the chops of our WFOE and our VIE are not kept safely, are stolen or are used by unauthorized persons or for unauthorized purposes, the corporate governance of these entities could be severely and adversely compromised.

In China, a company chop or seal serves as the legal representation of the company towards third parties even when unaccompanied by a signature. Each legally registered company in China is required to maintain a company chop, which must be registered with the local Public Security Bureau. In addition to this mandatory company chop, companies may have several other chops which can be used for specific purposes. The chops of our WFOE and VIE are generally held securely by personnel designated or approved by us in accordance with our internal control procedures. To the extent those chops are not kept safely, are stolen or are used by unauthorized persons or for unauthorized purposes, the corporate governance of these entities could be severely and adversely compromised and those corporate entities may be bound to abide by the terms of any documents so chopped, even if they were chopped by an individual who lacked the requisite power and authority to do so. In addition, if the chops are misused by unauthorized persons, we could experience disruption to our normal business operations. We may have to take corporate or legal action, which could involve significant time and resources to resolve while distracting management from our operations.

Risks Related to Doing Business in China

Changes in China’s economic, political or social conditions or government policies could have a material adverse effect on our business, financial condition and results of operations.

Substantially all of our revenues are sourced from China. Accordingly, our business, financial condition, results of operations and prospects may be influenced to a significant degree by political, economic and social conditions in China generally. The Chinese economy differs from the economies of most developed countries in many respects, including the level of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies.

The Chinese government also exercises significant control over China’s economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy, and the rate of growth has been slowing since 2012. Any adverse changes in economic conditions in China, in the policies of the Chinese government or in the laws and regulations in China could have a material adverse effect on the overall economic growth of China. Such developments could adversely affect our business and results of operations, lead to reduction in demand for our products and services and adversely affect our competitive position. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our
financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. In addition, in the past the Chinese government has implemented certain measures, including interest rate adjustment, to control the pace of economic growth. These measures may cause decreased economic activity in China, which may adversely affect our business and results of operations.

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

We conduct our business primarily through our WFOE and our VIE and its subsidiaries in China. Our operations in China are governed by PRC laws and regulations. Our WFOE is subject to laws and regulations applicable to foreign investment in China. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions under the civil law system may be cited for reference but have limited precedential value. In addition, any new or changes in PRC laws and regulations related to foreign investment in China could affect the business environment and our ability to operate our business in China.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. Any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory provisions and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into and could materially and adversely affect our business and results of operations.

Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all and may have retroactive effect. As a result, we may not be aware of our violation of any of these policies and rules until sometime after the violation. Such unpredictability towards our contractual, property and procedural rights could adversely affect our business and impede our ability to continue our operations.

We may be adversely affected by the complexity, uncertainties and changes in PRC laws and regulation, and any lack of requisite approvals, licenses or permits applicable to our business may have a material adverse effect on our business, financial conditions and results of operations.

Our business is subject to supervision and regulation by various governmental authorities in China, and such governmental authorities include the Cyberspace Administration of China, or the CAC, the MOFCOM, the MIIT, the State Administration for Market Regulation, or the SAMR, the National Health Commission, or the NHC, the Ministry of Culture and Tourism, or the MCT, the National Radio and Television Administration, or the NRTA, and the corresponding local regulatory authorities. Such governmental authorities promulgate and enforce laws and regulations that cover a variety of business activities that relate to our operations, such as provision of internet information, sales of and internet advertisement, providing live streaming and short videos broadcasting services, online sale of pharmaceutical products, among other things. These regulations in general regulate the entry into, the permitted scope of, as well as approvals, licenses and permits for, the relevant business activities.

We have not obtained certain approvals, licenses and permits that may be required for some aspects of our business operations. For example, our platform offers short videos created by ourselves and our broadcasters. According to the PRC Administrative Provisions on Internet Audio-Visual Program Services, a provider of online audio-visual service is required to obtain a license for online transmission of audio-visual programs, or Audio-Visual License. We have not obtained the Audio-Visual License for providing internet audio-visual program services and content through our platform in China and we may not be eligible for the Audio-Visual License, because the current PRC laws and regulations require an applicant to be a wholly state-owned or state-controlled entity. Although we are looking for suitable licensed targets or partners to work with, identifying
negotiating and maintaining relationships with such licensed entities require significant time and resources. Though we have obtained a pharmaceutical operation license from the local counterpart of the SAMR in February 2020 through acquisition of license-holding targets for conducting pharmaceutical retail business, historically we did not hold the pharmaceutical operation license; we shall obtain a practicing license of medical institutions from the NHC if our health related services are deemed medical diagnosis and treatment services; and we need to obtain a certificate for pharmaceutical information services marked as “for profit.” We are making efforts to obtain all licenses and permits that are necessary to our various business activities, however, there is no assurance that we can timely obtain all such licenses and permits or that we will not be subject to penalty for operating without such licenses and permits.

Our mobile platform, Blued, is operated by our VIE, which holds an ICP license and a Network Culture Operation License and offers value-added telecommunication services through Blued, including features to show users profile at the top of the “nearby user list” and push users’ selected posts to the “now trending” section to bring them more viewship and fans, while our WFOE collects payment from such users for such services. In addition, our WFOE also collects payment from the sales of beans, a virtual currency issued by us for users to purchase virtual gifts to be used in live streaming on Blued. Due to the uncertainty regarding the interpretation of relevant concepts of value-added telecommunication services and cyber performance operation services, it is not clear whether our WFOE as a party receiving payments for such services rather than the actual business operator will also be deemed to be a service provider and be required to obtain an ICP license or a Network Culture Operation License. Although we consider that our WFOE is providing technical support rather than offering telecommunication services, and that our WFOE is not offering network culture products, there is no assurance that the governmental authorities, future legislations, interpretations and enforcement of law will reach the same conclusion.

We generate a substantial portion of our revenues from the sale of beans. On June 4, 2009, Ministry of Culture, the predecessor of the MCT, and the MOFCOM jointly issued Notice on the Strengthening of the Administration of Online Game Virtual Currency, or the Virtual Currency Notice, which defines what virtual currency is and requires that entities obtain the approval from the Ministry of Culture prior to issuing virtual currency and engaging in transactions using virtual currency in connection with online games. Although we do not think the Virtual Currency Notice applies to the operation of our live streaming business, given the wide discretion of the governmental authorities and uncertainties in the regulatory environment, there is no assurance that the governmental authorities will not in the future interpret the Virtual Currency Notice in a different way and subject our operation of live streaming business to the scope of the Virtual Currency Notice or issue new rules to regulate the virtual currency in the live streaming industry. In that case, our business may be materially and adversely affected.

We pay broadcasters through their talent agencies and the fees are determined based on a percentage of revenue from virtual gift sales that is attributed to the broadcasters’ live streams. Although we consider the nature of our relation with the talent agencies and the broadcasters as that between procurer and suppliers of services and that the users are purchasing the virtual gifts on our platform using beans, there is no assurance that the governmental authorities will view it in the same way. If the PRC governmental authorities consider that we are receiving the payment on behalf of the broadcasters or their talent agencies for their performance, we may be deemed as third-party payment service providers and be required to either obtain a license to conduct third-party payment business or to work with licensed payment service providers.

If the PRC governmental authorities consider that we are operating without proper approvals, licenses or permits, or new laws and regulations are promulgated that require us to obtain additional approvals or licenses or impose additional restrictions on the operation of any part of our business, the PRC governmental authorities have the power, among other things, to order timely rectification, impose fines, confiscate our income, revoke our business licenses, and require us to discontinue our relevant business or impose restrictions on the affected portion of our business. Any of these actions by the PRC government may have a material adverse effect on our business, results of operations and financial condition.
Currently there is no law or regulation specifically governing virtual asset property rights and therefore it is not clear what liabilities, if any, live streaming platforms may have for virtual assets.

While participating on our platform, our users acquire, purchase and accumulate some virtual assets, such as gifts or certain status. Such virtual assets can be important to users and have monetary value and, in some cases, are sold for actual money. In practice, virtual assets can be lost for various reasons, often through unauthorized use of the user account of one user by other users and occasionally through data loss caused by delay of network service, network crash or hacking activities. Currently, there is no PRC law or regulation specifically governing virtual asset property rights. As a result, there is uncertainty as to who the legal owner of virtual assets is, whether and how the ownership of virtual assets is protected by law, and whether an operator of live streaming platform such as us would have any liability, whether in contract, tort or otherwise, to users or other interested parties, for loss of such virtual assets. Based on recent PRC court judgments, the courts have typically held online platform operators liable for losses of virtual assets by platform users, and ordered online platform operators to return the lost virtual items to users or pay damages and losses. In case of a loss of virtual assets, we may be sued by our users and held liable for damages, which may negatively affect our reputation and business, financial condition and results of operations.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing actions in China against us or our management named in the prospectus based on foreign laws.

We are a company incorporated under the laws of the Cayman Islands, we generate substantially all of our revenues from China and substantially all of our assets are located in China. In addition, all of our senior executive officers reside within China for a significant portion of the time and all are PRC nationals. As a result, it may be difficult for you to effect service of process upon us or those persons inside mainland China. It may also be difficult for you to enforce in U.S. courts judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors as none of them currently resides in the U.S. or has substantial assets located in the U.S. In addition, there is uncertainty as to whether the courts of the Cayman Islands or the PRC would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state.

The recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. China does not have any treaties or other forms of reciprocal arrangement with the United States that provide for the reciprocal recognition and enforcement of foreign judgments. In addition, according to the PRC Civil Procedures Law, the PRC courts will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates the basic principles of PRC laws or national sovereignty, security or public interest. As a result, it is uncertain whether and on what basis a PRC court would enforce a judgment rendered by a court in the U.S.

We may rely on dividends and other distributions on equity paid by our WFOE to fund any cash and financing requirements we may have, and any limitation on the ability of our WFOE to make payments to us could have a material and adverse effect on our ability to conduct our business.

We are a Cayman Islands holding company and we rely principally on dividends and other distributions on equity from our WFOE for our cash requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders for services of any debt we may incur. If any of our WFOE, VIE and its subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Under PRC laws and regulations, our WFOE may pay dividends only out of its respective accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its after-tax profits each year, if any, to fund a certain statutory reserve fund, until the aggregate amount of such
fund reaches 50% of its registered capital. At its discretion, a wholly foreign-owned enterprise may allocate a portion of its after-tax profits based on PRC accounting standards to a staff welfare and bonus fund. These reserve fund and staff welfare and bonus fund cannot be distributed to us as dividends.

Our WFOE, VIE and its subsidiaries generate primarily all of their revenue in RMB, which is not freely convertible into other currencies. As a result, any restriction on currency exchange may limit the ability of our WFOE to use their RMB revenues to pay dividends to us.

The PRC government may continue to strengthen its capital controls, and more restrictions and substantial vetting process may be put forward by the State Administration of Foreign Exchange, or the SAFE, for cross-border transactions falling under both the current account and the capital account. Any limitation on the ability of our WFOE to pay dividends or make other kinds of payments to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

There are significant uncertainties under the PRC Enterprise Income Tax Law relating to the withholding tax liabilities of our WFOE, and dividends payable by our WFOE to our offshore subsidiaries may not qualify to enjoy certain treaty benefits.

Under the PRC Enterprise Income Tax Law and its implementation rules, the profits of a foreign-invested enterprise generated through operations, which are distributed to its immediate holding company outside of China, will be subject to a withholding tax rate of 10%. Pursuant to a special arrangement between Hong Kong and China, such rate may be reduced to 5% if a Hong Kong resident enterprise owns more than 25% of the equity interest in the PRC company. Our WFOE is wholly owned by BlueCity Holdings Hong Kong Limited, our Hong Kong subsidiary. Accordingly, BlueCity Holdings Hong Kong Limited may qualify for a 5% tax rate in respect of distributions from our WFOE. Under the Notice of the State Administration of Taxation on Issues regarding the Administration of the Dividend Provision in Tax Treaties promulgated in 2009, the taxpayer needs to satisfy certain conditions to enjoy the benefits under a tax treaty. These conditions include: (i) the taxpayer must be the beneficial owner of the relevant dividends, and (ii) the corporate shareholder to receive dividends from our WFOE must have met the direct ownership thresholds during the 12 consecutive months preceding the receipt of the dividends. Further, the State Administration of Taxation, or the SAT, promulgated the Notice on How to Understand and Recognize the “Beneficial Owner” in Tax Treaties in 2009, which limits the “beneficial owner” to individuals, enterprises or other organizations normally engaged in substantive operations, and sets forth certain detailed factors in determining “beneficial owner” status.

Entitlement to a lower tax rate on dividends according to tax treaties or arrangements between the PRC central government and governments of other countries or regions is subject to the Administrative Measures for Non-Resident Taxpayers to Enjoy Treatments under Tax Treaties, which provides that non-resident enterprises are not required to obtain pre-approval from the relevant tax authority in order to enjoy the reduced withholding tax. Instead, non-resident enterprises and their withholding agents may, by self-assessment and on confirmation that the prescribed criteria to enjoy the tax treaty benefits are met, directly apply the reduced withholding tax rate, and file necessary forms and supporting documents when performing tax filings, which will be subject to post-tax filing examinations by the relevant tax authorities. As a result, there can be no assurance that we will be entitled to any preferential withholding tax rate under tax treaties for dividends received from our WFOE.

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

The PRC Ministry of Finance, the SAT and the General Administration of Customs promulgated the Announcement on Policies to Deepen Value-Added Tax Reform on March 20, 2019, which provides that the current value-added tax rate of 16% in manufacturing and other industries will be reduced to 13%, the current value-added tax rate of 10% in transportation and other industries will be reduced to 9%, and the value-added tax rate in value-added telecommunication service and other industries will remain at 6% from April 1, 2019. We are
subject to value-added tax at a rate of 13% on our sale of medications and screening kits from April 1, 2019, less any deductible value-added tax we have already paid or borne. It is uncertain whether the value-added tax rate will be raised in the future, which could have a material adverse effect on our financial condition and results of operations. If we fail to comply with these regulations, we may be subject to sanctions including corrective orders, imposition of fines and confiscation of illegal gains.

**PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the proceeds of this offering to make loans or additional capital contributions to our WFOE, which could materially and adversely affect our liquidity and our ability to fund and expand our business.**

We are an offshore holding company conducting our operations in China through our WFOE, VIE and its subsidiaries. We may make loans to our WFOE, VIE and its subsidiaries subject to the approval, registration, and filing with governmental authorities and limitation of amount, or we may make additional capital contributions to our wholly foreign-owned subsidiaries in China. Any loans to our wholly foreign-owned subsidiaries in China, which are treated as foreign-invested enterprises under PRC law, are subject to foreign exchange loan registrations. In addition, a foreign invested enterprise shall use its capital pursuant to the principle of authenticity and self-use within its business scope. The capital of a foreign invested enterprise shall not be used for the following purposes: (i) directly or indirectly used for payment beyond the business scope of the enterprises or the payment prohibited by relevant laws and regulations; (ii) directly or indirectly used for investment in securities or investments other than banks’ principal-secured products unless otherwise provided by relevant laws and regulations; (iii) the granting of loans to non-affiliated enterprises, except where it is expressly permitted in the business license; and (iv) paying the expenses related to the construction and purchase of real estate that is not for self-use (except for the foreign-invested real estate enterprises).

In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, there can be no assurance that we will be able to complete the necessary government registrations or obtain the necessary government approvals or filings on a timely basis, if at all, with respect to future loans by us to our WFOE or VIE or with respect to future capital contributions by us to our WFOE. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds from this offering and to capitalize or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

**Implementation of the labor laws and regulations in China may adversely affect our business and results of operations.**

Pursuant to the Labor Contract Law that took effect in January 2008, its implementation rules that took effect in September 2008 and its amendment that took effect in July 2013, employers are subject to stricter requirements in terms of signing labor contracts, minimum wages, paying remuneration, determining the term of employees’ probation and unilaterally terminating labor contracts. Due to lack of detailed interpretative rules and uniform implementation practices and broad discretion of the local competent authorities, it is uncertain as to how the labor contract law and its implementation rules will affect our current employment policies and practices. Our employment policies and practices may violate the labor contract law or its implementation rules, and we may thus be subject to related penalties, fines or legal fees. Compliance with the labor contract law and its implementation rules may increase our operating expenses, in particular our personnel expenses. In the event that we decide to terminate some of our employees or otherwise change our employment or labor practices, the labor contract law and its implementation rules may also limit our ability to effect those changes in a desirable or cost-effective manner, which could adversely affect our business and results of operations.

We expect our labor costs to increase due to the implementation of these laws and regulations. As the interpretation and implementation of these laws and regulations are still evolving, there can be no assurance that our employment practices will at all times be deemed in full compliance with labor-related laws and regulations.
in China, which may subject us to labor disputes or government investigations. If we are deemed to have violated relevant labor laws and regulations, we could be required to provide additional compensation to our employees and our business, financial condition and results of operations could be materially and adversely affected.

Further, labor disputes, work stoppages or slowdowns at our company or any of our third-party service providers could significantly disrupt our daily operation or our expansion plans and have a material adverse effect on our business.

**Our business may be negatively affected by the potential obligations to make additional social insurance and housing fund contributions.**

We are required by PRC labor laws and regulations to pay various statutory employee benefits, including pensions insurance, medical insurance, work-related injury insurance, unemployment insurance, maternity insurance and housing fund, to designated government agencies for the benefit of our employees and associates. The relevant government agencies may examine whether an employer has made adequate payments of the requisite statutory employee benefits, and employers who fail to make adequate payments may be subject to late payment fees, fines and/or other penalties. If the relevant PRC authorities determine that we shall make supplemental social insurance and housing fund contributions or that we are subject to fines and legal sanctions in relation to our failure to make social insurance and housing fund contributions in full for our employees, our business, financial condition and results of operations may be adversely affected.

We may be subject to fines for failing to register and file lease agreements with the relevant governmental authorities in China.

According to the Administrative Measures for Commodity Housing Tenancy promulgated by the Ministry of Housing and Urban-Rural Development, all leases are to be registered and filed with the relevant real estate administration bureaus in China. As of the date of the prospectus, certain leases relating to our offices in China had not been registered and filed with the relevant land and real estate administration bureaus in China. Our PRC legal advisers have advised us that failure to complete the registration and filing of lease agreements will not affect the validity of such leases or impede our use of the relevant properties but could result in the imposition of fines up to RMB10,000 for each leased property that is unregistered if we fail to rectify the noncompliance within the time frame prescribed by the relevant authorities.

**Fluctuation in the value of the RMB may have a material adverse effect on the value of your investment.**

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions in China and by China’s foreign exchange policies. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar, and the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. On November 30, 2015, the Executive Board of IMF completed the regular five-year review of the basket of currencies that make up the Special Drawing Right, or the SDR, and decided that with effect from October 1, 2016, Renminbi is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollar, the Euro, the Japanese yen and the British pound. In the fourth quarter of 2016, the Renminbi has depreciated significantly in the backdrop of a surging U.S. dollar and persistent capital outflows of China. This depreciation halted in 2017, and the RMB appreciated approximately 7% against the U.S. dollar during this one-year period. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system, and there can be no assurance that the Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future.

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Significant revaluation of the Renminbi may have a material and adverse effect on your investment. For example, to the extent that we need to convert U.S. dollars we receive from this offering into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us.

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

**Governmental control of currency conversion may limit our ability to utilize our revenues effectively and affect the value of your investment.**

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in Renminbi. Under our current corporate structure, our Cayman Islands holding company primarily relies on dividend payments from our WFOE to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval of SAFE by complying with certain procedural requirements. Specifically, under the existing exchange restrictions, without prior approval of SAFE, cash generated from the operations of our WFOE in China may be used to pay dividends to our company. However, approval from or registration with appropriate governmental authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. As a result, we need to obtain SAFE approval to use cash generated from the operations of our WFOE and VIE to pay off their respective debt in a currency other than Renminbi owed to entities outside of China, or to make other capital expenditure payments outside of China in a currency other than Renminbi.

In light of the flood of capital outflows of China, the PRC government may from time to time impose more restrictive foreign exchange policies and step up scrutiny of major outbound capital movement. More restrictions and substantial vetting process may be required by SAFE or other governmental authorities to regulate cross-border transactions falling under the capital account. The PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

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

Among other things, the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009, established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. Such regulation requires, among other things, that MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor acquires control of a PRC domestic enterprise and involves any of the following circumstances: (i) any important industry is concerned, (ii) such transaction involves factors that impact or may impact national economic security, or (iii) such transaction will
lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. We do not expect that this offering will trigger MOFCOM pre-notification under each of the above-mentioned circumstances or any review by other PRC governmental authorities, except as disclosed in “—The approval of the China Securities Regulatory Commission may be required in connection with this offering, and, if required, we cannot predict whether we will be able to obtain such approval.” Moreover, the Anti-Monopoly Law promulgated by the Standing Committee of the NPC which became effective in 2008 requires that transactions which are deemed concentrations and involve parties with specified turnover thresholds must be cleared by MOFCOM before they can be completed. In addition, PRC national security review rules that became effective in September 2011 require acquisitions by foreign investors of PRC companies engaged in military related or certain other industries that are crucial to national security be subject to security review before consummation of any such acquisition. We may pursue potential strategic acquisitions that are complementary to our business and operations. Complying with the requirements of these regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval or clearance from MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

PRC regulations relating to offshore investment activities by PRC residents may limit our WFOE’s ability to change its registered capital or distribute profits to us or otherwise expose us or our PRC resident beneficial owners to liability and penalties under PRC laws.

In July 2014, SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment Through Special Purpose Vehicles, or SAFE Circular 37. SAFE Circular 37 requires PRC residents (including PRC individuals and PRC corporate entities as well as foreign individuals that are deemed as PRC residents for foreign exchange administration purpose) to register with SAFE or its local branches in connection with their direct or indirect offshore investment activities. SAFE Circular 37 further requires amendment to the SAFE registrations in the event of any changes with respect to the basic information of the offshore special purpose vehicle, such as change of a PRC individual shareholder, name and operation term, or any significant changes with respect to the offshore special purpose vehicle, such as increase or decrease of capital contribution, share transfer or exchange, or mergers or divisions. SAFE Circular 37 is applicable to our shareholders who are PRC residents and may be applicable to any offshore acquisitions that we make in the future.

If our shareholders who are PRC residents fail to make the required registration or to update the previously filed registration, our WFOE may be prohibited from distributing their profits or the proceeds from any capital reduction, share transfer or liquidation to us, and we may also be prohibited from making additional capital contributions into our WFOE.

In February 2015, SAFE promulgated a Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment, or SAFE Notice 13, effective June 2015. Under SAFE Notice 13, applications for foreign exchange registration of inbound foreign direct investments and outbound overseas direct investments, including those required under SAFE Circular 37, will be filed with qualified banks instead of SAFE. The qualified banks will directly examine the applications and accept registrations under the supervision of SAFE.

We may not be informed of the identities of all the PRC residents holding direct or indirect interest in our company, and we cannot provide any assurance that these PRC residents will comply with our request to make or obtain any applicable registrations or continuously comply with all requirements under SAFE Circular No. 37 or other related rules. The failure or inability of the relevant shareholders to comply with the registration procedures set forth in these regulations may subject us to fines and legal sanctions, such as restrictions on our cross-border investment activities, on the ability of our wholly foreign-owned subsidiaries in China to distribute dividends and the proceeds from any reduction in capital, share transfer or liquidation to us. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under PRC law.
Any failure to comply with PRC regulations regarding the registration requirements for employee stock incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, replacing earlier rules promulgated in 2007. Pursuant to these rules, PRC citizens and non-PRC citizens who reside in China for a continuous period of not less than one year who participate in any stock incentive plan of an overseas publicly listed company, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which could be the PRC subsidiaries of such overseas-listed company, and complete certain other procedures. In addition, an overseas-entrusted institution must be retained to handle matters in connection with the exercise or sale of stock options and the purchase or sale of shares and interests. We and our executive officers and other employees who are PRC citizens or who reside in the PRC for a continuous period of not less than one year and who have been granted options will be subject to these regulations when our company becomes an overseas-listed company upon the completion of this offering. Failure to complete SAFE registrations may subject them 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 WFOE and limit our WFOE’s ability to distribute dividends to us. We may also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our directors, executive officers and employees under PRC law. See “Regulation—Regulation Relating to Foreign Exchange—Regulations on Stock Incentive Plans.”

In addition, the SAT has issued certain circulars concerning employee share options and restricted shares. Under these circulars, our employees working in China who exercise share options or are granted restricted shares will be subject to PRC individual income tax. Our WFOE has obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay or we fail to withhold their income taxes according to relevant laws and regulations, we may face sanctions imposed by the tax authorities or other PRC governmental authorities. See “Regulation—Regulation Relating to Foreign Exchange—Regulations on Stock Incentive Plans.”

If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders.

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with “de facto management body” within the PRC is considered a “resident enterprise” and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control and overall management over the business, productions, personnel, accounts and properties of an enterprise. In 2009, the SAT issued a circular, known as SAT Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the SAT’s general position on how the “de facto management body” text should be applied in determining the tax resident status of all offshore enterprises.

According to SAT Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its global income only if all of the following
conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

We believe that we are not a PRC resident enterprise for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.” If the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, we could be subject to PRC tax at a rate of 25% on our worldwide income, which could materially reduce our net income, and we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises, including the holders of our ADSs. In addition, non-resident enterprise shareholders (including our ADS holders) may be subject to PRC tax at a rate of 10% on gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is treated as sourced from within the PRC. Furthermore, if we are deemed a PRC resident enterprise, dividends payable to our non-PRC individual shareholders (including our ADS holders) and any gain realized on the transfer of ADSs or ordinary shares by such shareholders may be subject to PRC tax at a rate of 20% (which, in the case of dividends, may be withheld at source by us), if such income or gains are deemed to be from PRC sources. Any PRC tax imposed on dividends or gains may be subject to reduction if a reduced rate is available under an applicable tax treaty. It is unclear whether non-PRC shareholders of our company would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Any PRC tax may reduce the returns on your investment in the ADSs or ordinary shares.

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

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, or SAT Circular 698, issued by the SAT in 2009 with retroactive effect from January 1, 2008, where a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposition of the equity interests of an overseas holding company, or an Indirect Transfer, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5% or (ii) does not tax foreign income of its residents, the non-resident enterprise, being the transferor, shall report to the competent tax authority of the PRC resident enterprise this Indirect Transfer.

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

In October 2017, the SAT issued an Announcement on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises, or SAT Circular 37. Effective December 2017, SAT Circular 37, among others, repealed the Circular 698 and amended certain provisions in SAT Circular 7. According to SAT Circular 37, where the non-resident enterprise fails to declare the tax payable pursuant to Article 39 of the Enterprise Income Tax, the tax authority may order it to pay the tax due within required time limits, and the non-resident enterprise shall declare and pay the tax payable within such time limits specified by the tax authority. However, if the non-resident enterprise voluntarily declares and pays the tax payable before the tax authority orders it to do so within required time limits, it shall be deemed that such enterprise has paid the tax in time.

We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved, such as offshore restructuring, sale of the shares in our offshore subsidiaries and investments. Our company may be subject to filing obligations or taxed if our company is transferor in such transactions, and may be subject to withholding obligations if our company is transferee in such transactions, under SAT Circular 7 and SAT Circular 37. For transfer of shares in our company by investors who are non-PRC resident enterprises, our PRC subsidiary may be requested to assist in the filing under SAT circulars. As a result, we may be required to expend valuable resources to comply with SAT circulars or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our company should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

**The approval of the China Securities Regulatory Commission may be required in connection with this offering, and, if required, we cannot predict whether we will be able to obtain such approval.**

The M&A Rules require an overseas special purpose vehicles that are controlled by PRC companies or individuals formed for the purpose of seeking a public listing on an overseas stock exchange through acquisitions of PRC domestic companies using shares of such special purpose vehicles or held by its shareholders as considerations to obtain the approval of the China Securities Regulatory Commission, or the CSRC, prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange. However, the application of the M&A Rules remains unclear. If CSRC approval is required, it is uncertain whether it would be possible for us to obtain the approval, and any failure to obtain or delay in obtaining CSRC approval for this offering would subject us to sanctions imposed by the CSRC and other PRC regulatory agencies.

Our PRC counsel has advised us based on their understanding of the current PRC laws, rules and regulations that the CSRC's approval may not be required for the listing and trading of our ADSs on Nasdaq in the context of this offering, given that: (i) our PRC subsidiary was incorporated as wholly foreign-owned enterprises by means of direct investment rather than by merger or acquisition of equity interest or assets of a PRC domestic company owned by PRC companies or individuals as defined under the M&A Rules that are our beneficial owners, and (ii) we do not constitute a “special purpose vehicle,” to which the relevant provisions of the M&A Rules are applicable.

However, our PRC counsel has further advised us that there remains some uncertainty as to how the M&A Rules will be interpreted or implemented in the context of an overseas offering and its opinions summarized above are subject to any new laws, rules and regulations or detailed implementations and interpretations in any form relating to the M&A Rules. There can be no assurance that relevant PRC government agencies, including the CSRC, would reach the same conclusion as we do. If it is determined that CSRC approval is required for this offering, we may face sanctions by the CSRC or other PRC regulatory agencies for failure to seek CSRC approval.
approval for this offering. These sanctions may include fines and penalties on our operations in the PRC, limitations on our operating privileges in the PRC, delays in or restrictions on the repatriation of the proceeds from this offering into the PRC, restrictions on or prohibition of the payments or remittance of dividends by our subsidiaries in China, or other actions that could have a material and adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs. The CSRC or other PRC regulatory agencies may also take actions requiring us, or making it advisable for us, to halt this offering before the settlement and delivery of the ADSs that we are offering. Consequently, if you engage in market trading or other activities in anticipation of and prior to the settlement and delivery of the ADSs we are offering, you would be doing so at the risk that the settlement and delivery may not occur. In addition, if the CSRC or other regulatory agencies later promulgate new rules or explanations requiring that we obtain their approvals for this offering, we may be unable to obtain a waiver of such approval requirements, if and when procedures are established to obtain such a waiver.

The audit report included in this prospectus is prepared by an auditor who is not inspected by the Public Company Accounting Oversight Board and as such, investors may be deprived of the benefits of such inspection.

Our independent registered public accounting firm that issues the audit report included in our prospectus filed with the U.S. Securities and Exchange Commission, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or the PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the laws of the United States and professional standards. Because our auditors are located in China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, our auditors are not currently inspected by the PCAOB.

On December 7, 2018, the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. The joint statement reflects a heightened interest in an issue that has vexed U.S. regulators in recent years. However, it remains unclear what further actions, if any, the SEC and PCAOB will take to address the problem.

Inspections of other firms that the PCAOB has conducted outside of China have identified deficiencies in those firms’ audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our auditor’s audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor’s audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

Proceedings instituted by the SEC against PRC affiliates of the “big four” accounting firms, including our independent registered public accounting firm, could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act.

In December 2012, the SEC brought administrative proceedings against the PRC-based affiliates of the Big Four accounting firms, including our independent registered public accounting firm, alleging that they had violated U.S. securities laws and the SEC’s rules and regulations thereunder by failing to provide to the SEC the firms’ audit work papers and other documents related to certain other PRC-based companies that are publicly traded in the United States.
On January 22, 2014, the administrative law judge, or the ALJ, presiding over the matter rendered an initial decision that each of the firms had violated the SEC’s rules of practice by failing to produce audit papers and other documents to the SEC. The initial decision censured each of the firms and barred them from practicing before the SEC for a period of six months. The decision was neither final nor legally effective until reviewed and approved by the SEC, and on February 12, 2014, the PRC-based accounting firms appealed to the SEC against this decision.

On February 6, 2015, the four PRC-based accounting firms each agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC and audit U.S.-listed companies. The settlement required the firms to follow detailed procedures and to seek to provide the SEC with access to Chinese firms’ audit documents via the CSRC. Under the terms of the settlement, the underlying proceeding against the four PRC-based accounting firms was deemed dismissed with prejudice four years after entry of the settlement. The four-year mark occurred on February 6, 2019. It is uncertain whether the SEC will further challenge the four PRC-based accounting firms’ compliance with U.S. laws in connection with U.S. regulatory requests for audit work papers or if the results of such a challenge would result in the SEC imposing penalties such as suspensions. If additional remedial measures are imposed on the PRC-based affiliates of the “big four” accounting firms, including our independent registered public accounting firm, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.

In the event that the PRC affiliates of the “big four” become subject to additional legal challenges by the SEC or PCAOB, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about the proceedings against these audit firms may cause investor uncertainty regarding PRC-based, United States-listed companies and the market price of our ADSs may be adversely affected.

If our independent registered public accounting firm was denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to the delisting of our ADSs from Nasdaq or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

Risks Related to our ADSs and This Offering

An active trading market for our ADSs may not develop and the trading price for our ADSs may fluctuate significantly.

We intend to apply to list our ADSs on the Nasdaq Global Market. We have no current intention to seek a listing for our ordinary shares on any stock exchange. Prior to the completion of this offering, there has been no public market for our ADSs or our ordinary shares, and there can be no assurance that a liquid public market for our ADSs will develop. If an active public market for our ADSs does not develop following the completion of this offering, the market price and liquidity of our ADSs may be materially and adversely affected. The initial public offering price for our ADSs was determined by negotiation between us and the underwriters based upon several factors, and we can provide no assurance that the trading price of our ADSs after this offering will not decline below the initial public offering price. As a result, investors in our securities may experience a significant decrease in the value of their ADSs.

The market price for our ADSs may be volatile.

The trading price of our ADSs is likely to be volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, including the performance and
fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in the United States. In addition to market and industry factors, the price and trading volume for our ADSs may be highly volatile for factors specific to our own operations, including the following:

- variations in our revenues, earnings, cash flow and data related to our user base or user engagement;
- announcements of new investments, acquisitions, strategic partnerships or joint ventures by us or our competitors;
- announcements of new product and service offerings, solutions and expansions by us or our competitors;
- announcements of new laws and regulations or interpretations of existing laws and regulations that affect our business;
- changes in financial estimates by securities analysts;
- detrimental adverse publicity about us, our products and services or our industries;
- additions or departures of key personnel;
- release of lock-up or other transfer restrictions on our outstanding equity securities or sales of additional equity securities; and
- actual or potential litigation or regulatory investigations.

Any of these factors may result in large and sudden changes in the volume and price at which our ADSs will trade.

In the past, shareholders of public companies have often brought securities class action suits against those companies following periods of instability in the market price of their securities. If we were involved in a class action suit, it could divert a significant amount of our management’s attention and other resources from our business and operations and require us to incur significant expenses to defend the suit, which could harm our results of operations. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

**If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, the market price for our ADSs and trading volume could decline.**

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

**The sale or availability for sale of substantial amounts of our ADSs could adversely affect their market price.**

Sales of substantial amounts of our ADSs in the public market after the completion of this offering, or the perception that these sales could occur, could adversely affect the market price of our ADSs and could materially impair our ability to raise capital through equity offerings in the future. The ADSs sold in this offering will be freely tradable without restriction or further registration under the Securities Act, and shares held by our existing shareholders may also be sold in the public market in the future subject to the restrictions in Rule 144 and Rule 701 under the Securities Act and the applicable lock-up agreements. There will be ADSs (equivalent to ordinary shares) outstanding immediately after this offering, or }
ordinary shares) if the underwriters exercise their option to purchase additional ADSs in full. In connection with this offering, we and our officers, directors, existing shareholders, certain option holders have agreed not to sell any ordinary shares or ADSs for 180 days after the date of this prospectus without the prior written consent of the underwriters, subject to certain exceptions. However, the underwriters may release these securities from these restrictions at any time, subject to applicable regulations of the Financial Industry Regulatory Authority, Inc. We cannot predict what effect, if any, market sales of securities held by our significant shareholders or any other shareholder or the availability of these securities for future sale will have on the market price of our ADSs. See “Underwriting” and “Shares Eligible for Future Sale” for a more detailed description of the restrictions on selling our securities after this offering.

Because we do not expect to pay dividends in the foreseeable future after this offering, you must rely on price appreciation of our ADSs for return on your investment.

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

Our board of directors has complete discretion as to whether to distribute dividends. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiary, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in our ADSs will likely depend entirely upon any future price appreciation of our ADSs. There is no guarantee that our ADSs will appreciate in value after this offering or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in our ADSs and you may even lose your entire investment in our ADSs.

Because the initial public offering price is substantially higher than our net tangible book value per share, you will experience immediate and substantial dilution.

If you purchase ADSs in this offering, you will pay more for each ADS than the corresponding amount paid by existing shareholders for their ordinary shares. As a result, you will experience immediate and substantial dilution of US$ per ADS (assuming that no outstanding options to acquire ordinary shares are exercised). This number represents the difference between the initial public offering price of US$ per ADS and our net tangible book value per ADS as of December 31, 2019, after giving effect to this offering. See “Dilution” for a more complete description of how the value of your investment in our ADSs will be diluted upon the completion of this offering.

You must rely on the judgment of our management as to the use of the net proceeds from this offering, and such use may not produce income or increase our ADS price.

Our management will have considerable discretion in the application of the net proceeds received by us. You will not have the opportunity, as part of your investment decision, to assess whether proceeds are being used appropriately. The net proceeds may be used for corporate purposes that do not improve our efforts to achieve or maintain profitability or increase our ADS price. The net proceeds from this offering may be placed in investments that do not produce income or that lose value.

There can be no assurance that we will not be a passive foreign investment company, or PFIC, for United States federal income tax purposes for any taxable year, which could subject United States investors in our ADSs or ordinary shares to significant adverse United States income tax consequences.

We will be classified as a passive foreign investment company, or PFIC, for United States federal income tax purposes for any taxable year if either (a) 75% or more of our gross income for such year consists of certain
types of “passive” income or (b) 50% or more of the value of our assets (generally determined on the basis of a quarterly average) during such year produce or are held for the production of passive income (the “asset test”). Although the law in this regard is unclear, we intend to treat our VIE (including its subsidiaries) as being owned by us for United States federal income tax purposes, not only because we exercise effective control over the operation of such entities but also because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their results of operations in our consolidated financial statements. Assuming that we are the owner of our VIE (including its subsidiaries) for United States federal income tax purposes, and based upon our current and expected income and assets, including goodwill and other unbooked intangibles not reflected on our balance sheet (taking into account the expected proceeds from this offering) and projections as to the market price of our ADSs following the offering, we do not presently expect to be a PFIC for the current taxable year or the foreseeable future.

While we do not expect to become a PFIC, because the value of our assets for purposes of the asset test may be determined by reference to the market price of our ADSs, fluctuations in the market price of our ADSs may cause us to become a PFIC for the current or subsequent taxable years. The determination of whether we will be or become a PFIC will also depend, in part, on the composition of our income and assets. In addition, the composition of our income and assets will also be affected by how, and how quickly, we use our liquid assets and the cash raised in this offering. If we determine not to deploy significant amounts of cash for active purposes or if it were determined that we do not own the stock of our VIE for United States federal income tax purposes, our risk of being a PFIC may substantially increase. Because PFIC status is a factual determination made annually after the close of each taxable year, there can be no assurance that we will not be a PFIC for the current taxable year or any future taxable year.

If we are a PFIC in any taxable year, a U.S. Holder (as defined in “Taxation—United States Federal Income Tax Considerations”) may incur significantly increased United States income tax on gain recognized on the sale or other disposition of the ADSs or ordinary shares and on the receipt of distributions on the ADSs or ordinary shares to the extent such gain or distribution is treated as an “excess distribution” under the United States federal income tax rules, and such U.S. Holder may be subject to burdensome reporting requirements. Further, if we are a PFIC for any year during which a U.S. Holder holds our ADSs or ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds our ADSs or ordinary shares. For more information see “Taxation—United States Federal Income Tax Considerations—Passive Foreign Investment Company Considerations” and “Taxation—United States Federal Income Tax Considerations—Passive Foreign Investment Company Rules.”

The voting rights of holders of ADSs are limited by the terms of the deposit agreement, and you may not be able to exercise your right to direct the voting of the underlying ordinary shares which are represented by your ADSs.

As a holder of our ADSs, you will only be able to exercise the voting rights with respect to the underlying ordinary shares representing your ADSs in accordance with the provisions of the deposit agreement. Under the deposit agreement, you must vote by giving voting instructions to the depositary. Upon receipt of your voting instructions, the depositary will vote the underlying ordinary shares representing your ADSs in accordance with these instructions. You will not be able to directly exercise your right to vote with respect to the underlying ordinary shares representing your ADSs unless you withdraw the shares and become the registered holder of such shares prior to the record date for the general meeting. When a general meeting is convened, you may not receive sufficient advance notice enable you to withdraw the shares underlying your ADSs and become the registered holder of such shares prior to the record date of the general meeting to allow you to vote with respect to any specific matter. In addition, under our post-offering amended and restated memorandum and articles of association that will become effective immediately upon completion of this offering, for the purposes of determining those shareholders who are entitled to attend and vote at any general meeting, our directors may close our register of members or fix in advance a record date for such meeting, and such closure of our register of members or the setting of such a record date may prevent you from withdrawing the shares underlying your
ADSs and becoming the registered holder of such shares prior to the record date, so that you would not be able to attend the general meeting or to vote directly. Where any matter is to be put to a vote at a general meeting, the depositary will use its best endeavors to notify you of the upcoming vote and to deliver our voting materials to you. There can be no assurance that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your shares. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out your voting instructions. This means that you may not be able to exercise your right to vote and you may have no legal remedy if the shares underlying your ADSs are not voted as you requested.

*Except in limited circumstances, the depositary for our ADSs will give us a discretionary proxy to vote the ordinary shares underlying your ADSs if you do not vote at shareholders’ meetings, which could adversely affect your interests.*

Under the deposit agreement for the ADSs, if you do not timely and properly give voting instructions to the depository as to how to vote the ordinary shares underlying your ADSs, the depositary will give us or our nominee a discretionary proxy to vote the ordinary shares underlying your ADSs at shareholders’ meetings if:

- we have timely provided the depositary with notice of meeting and related voting materials;
- we have instructed the depositary that we wish a discretionary proxy to be given;
- we have informed the depositary that there is no substantial opposition as to a matter to be voted on at the meeting;
- a matter to be voted on at the meeting would not have a material adverse impact on shareholders; and
- the depositary has received an opinion of counsel in form and substance satisfactory to the depositary.

The effect of this discretionary proxy is that if you do not timely and properly give voting instructions to the depository as to how to vote the ordinary shares underlying your ADSs at shareholders’ meetings, you cannot prevent such ordinary shares underlying your ADSs from being voted, except under the circumstances described above. This may make it more difficult for shareholders to influence the management of our company. Holders of our ordinary shares are not subject to this discretionary proxy. In addition, in the event that voting on any resolution or matter is conducted on a show of hands basis in accordance with our constituent documents, the depositary will refrain from voting and the voting instructions received by the depositary from holders shall lapse.

*Your rights to pursue claims against the depositary as a holder of ADSs are limited by the terms of the deposit agreement.*

Under the deposit agreement, any action or proceeding against or involving the depositary, arising out of or based upon the deposit agreement or the transactions contemplated thereby or by virtue of owning the ADSs may only be instituted in a state or federal court in New York, New York, and you, as a holder of our ADSs, will have irrevocably waived any objection which you may have to the laying of venue of any such proceeding, and irrevocably submitted to the non-exclusive jurisdiction of such courts in any such action or proceeding. As a result, you as a holder of our ADSs may not initiate legal proceedings against or involving the depositary, arising out of or based upon the deposit agreement, the ADSs, the ADRs or the transactions contemplated therein or thereby, in any jurisdictions outside of a state or federal court in New York, New York, while proceedings against you may be initiated in a state or federal court in New York, New York or other jurisdictions. The depositary may, in its sole discretion, require that any dispute or difference arising from the relationship created by the deposit agreement be referred to and finally settled by an arbitration conducted under the terms described in the deposit agreement. The arbitration provisions in the deposit agreement do not preclude you from pursuing claims under federal securities laws in federal courts. Also, we may amend or terminate the deposit agreement without your consent. If you continue to hold your ADSs after an amendment to the deposit agreement, you agree to be bound by the deposit agreement as amended. See “Description of American Depositary Shares” for more information.
ADS holders may not be entitled to a jury trial with respect to claims arising under the deposit agreement, which could result in less favorable outcomes to the plaintiff(s) in any such action.

The deposit agreement governing the ADSs representing our ordinary shares provides that, to the fullest extent permitted by law, ADS holders waive the right to a jury trial for any claim they may have against us or the depositary arising out of or relating to our shares, the ADSs or the deposit agreement, including any claim under the U.S. federal securities laws.

If we or the depositary were to oppose a jury trial based on this waiver, the court would have to determine whether the waiver was enforceable based on the facts and circumstances of the case in accordance with applicable state and federal law. To our knowledge, the enforceability of a contractual pre-dispute jury trial waiver in connection with claims arising under the federal securities laws has not been finally adjudicated by the United States Supreme Court. However, we believe that a contractual pre-dispute jury trial waiver provision is generally enforceable, including under the laws of the State of New York, which govern the deposit agreement, or by a federal or state court in the City of New York, which has non-exclusive jurisdiction over claims against or involving ADS holders arising out of or based upon the deposit agreement, the ADSs, the ADRs or the transactions contemplated therein or thereby. In determining whether to enforce a contractual pre-dispute jury trial waiver, courts will generally consider whether a party knowingly, intelligently and voluntarily waived the right to a jury trial. We believe that this would be the case with respect to the deposit agreement and the ADSs. It is advisable that you consult legal counsel regarding the jury waiver provision before investing in the ADSs.

If you or any other holders or beneficial owners of ADSs bring a claim against us or the depositary in connection with matters arising under the deposit agreement or the ADSs, including claims under federal securities laws, you or such other holder or beneficial owner may not be entitled to a jury trial with respect to such claims, which may have the effect of limiting and discouraging lawsuits against us or the depositary. If a lawsuit is brought against us or the depositary under the deposit agreement, it may be heard only by a judge or justice of the applicable trial court, which would be conducted according to different civil procedures and may result in different outcomes than a trial by jury would have, including outcomes that could be less favorable to the plaintiff(s) in any such action.

Nevertheless, if this jury trial waiver is not permitted by applicable law, an action could proceed under the terms of the deposit agreement with a jury trial. No condition, stipulation or provision of the deposit agreement or the ADSs serves as a waiver by any holder or beneficial owner of ADSs or by us or the depositary of compliance with any substantive provision of the U.S. federal securities laws and the rules and regulations promulgated thereunder.

You may experience dilution of your holdings due to inability to participate in rights offerings.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make such rights available to you in the United States unless we register both the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Under the deposit agreement, the depositary will not make rights available to you unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective and we may not be able to establish a necessary exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings in the future and may experience dilution in your holdings.

You may not receive dividends or other distributions on our ordinary shares and you may not receive any value for them, if it is illegal or impractical to make them available to you.

The depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on ordinary shares or other deposited securities underlying our ADSs, after deducting its fees.
You may be subject to limitations on transfer of your ADSs.

Your ADSs are transferable on the books of the depositary. However, the depositary may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depositary may close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depositary needs to maintain an exact number of ADS holders on its books for a specified period. The depositary may also close its books in emergencies, and on weekends and public holidays. The depositary may refuse to deliver, transfer or register transfers of our ADSs generally when our share register or the books of the depositary are closed, or at any time if we or the depositary thinks that it is advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason in accordance with the terms of the deposit agreement. As a result, you may be unable to transfer your ADSs when you wish to.

Our memorandum and articles of association contain anti-takeover provisions that could have a material adverse effect on the rights of holders of our ordinary shares and ADSs.

We plan to adopt an amended and restated memorandum and articles of association that will become effective immediately prior to the completion of this offering. Our post-offering memorandum and articles of association will contain provisions that could limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. In addition, our board of directors has the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix their designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our ordinary shares, in the form of ADS or otherwise. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preferred shares, the price of our ADSs may fall and the voting and other rights of the holders of our ordinary shares and ADSs may be materially and adversely affected.

You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts may be limited, because we are incorporated under Cayman Islands law.

We are an exempted company incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our memorandum and articles of association, the Companies Law (2018 Revision) of the Cayman Islands and the common law of the Cayman Islands. The rights of shareholders to take action against our
directors, actions by our minority shareholders and the fiduciary duties of our directors owed to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary duties of our directors owed to us under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) are made available by the Registrar of Companies in the Cayman Islands for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members. Shareholders of Cayman Islands exempted companies like us have no general rights under Cayman Islands law to inspect corporate records (other than the memorandum and articles of association and any special resolutions passed by such companies) or to obtain copies of lists of shareholders of these companies. Our directors have discretion under our post-offering memorandum and articles of association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests in the face of actions taken by our management, members of our board of directors or our controlling shareholders than they would as public shareholders of a company incorporated in the United States. For a discussion of significant differences between the provisions of the Companies Law (2018 Revision) of the Cayman Islands and the laws applicable to companies incorporated in the United States and their shareholders, see “Description of Share Capital—Differences in Corporate Law.”

**We are an emerging growth company within the meaning of the Securities Act and may take advantage of certain reduced reporting requirements.**

We are an “emerging growth company,” as defined in the JOBS Act, and we may take advantage of certain exemptions from requirements applicable to other public companies that are not emerging growth companies including, most significantly, not being required to comply with the auditor attestation requirements of Section 404 for so long as we are an emerging growth company until the fifth anniversary from the date of our initial listing. As a result, if we elect not to comply with such auditor attestation requirements, our investors may not have access to certain information they may deem important.

In addition, pursuant to the JOBS Act, we have elected to take advantage of the extended transition period for complying with new or revised accounting standards until those standards would otherwise apply to private companies. As a result, our operating results and financial statements may not be comparable to the operating results and financial statements of other companies who have adopted the new or revised accounting standards. If we cease to be an emerging growth company, we will no longer be able to take advantage of these exemptions or the extended transition period for complying with new or revised accounting standards.

We cannot predict if investors will find our ADSs less attractive or our company less comparable to certain other public companies because we will rely on these exemptions and election. If some investors find our ADSs less attractive as a result, there may be a less active trading market for our ADSs and our ADS price may be more volatile.
We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to United States domestic public companies.

Because we are a foreign private issuer under the Exchange Act, we are exempt from certain provisions of the securities rules and regulations in the United States that are applicable to U.S. domestic issuers, including: (i) the rules under the Exchange Act requiring the filing of quarterly reports on Form 10-Q or current reports on Form 8-K with the SEC; (ii) the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act; (iii) the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and (iv) the selective disclosure rules by issuers of material nonpublic information under Regulation FD.

We will be required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we intend to publish our results on a quarterly basis through press releases, distributed pursuant to the rules and regulations of Nasdaq. Press releases relating to financial results and material events will also be furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC will be less extensive and less timely compared to that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information, which would be made available to you, were you investing in a U.S. domestic issuer.

As an exempted company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the Nasdaq corporate governance listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with the Nasdaq corporate governance listing standards.

As an exempted company incorporated in the Cayman Islands company that is listed on the Nasdaq, we are subject to the Nasdaq corporate governance listing standards. However, Nasdaq rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the Nasdaq corporate governance listing standards. Currently, we do not plan to rely on home country practice with respect to our corporate governance after we complete this offering. However, if we choose to follow home country practice in the future, our shareholders may be afforded less protection than they otherwise would enjoy under the Nasdaq corporate governance listing standards applicable to U.S. domestic issuers.

We will incur increased costs as a result of being a public company, particularly after we cease to qualify as an “emerging growth company.”

Upon completion of this offering, we will become a public company and expect to incur significant legal, accounting and other expenses that we did not incur as a private company. These additional costs may negatively affect our financial results. The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and Nasdaq, impose various requirements on the corporate governance practices of public companies. We expect these rules and regulations to increase our legal and financial compliance costs and to make some corporate activities more time-consuming and costly. We expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and the other rules and regulations of the SEC. For example, as a result of becoming a public company, we will need to increase the number of independent directors and adopt policies regarding internal controls and disclosure controls and procedures. We also expect that operating as a public company will make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. In addition, we will incur additional costs associated with our public company reporting requirements. It may also be more difficult for us to find qualified persons to serve on our board of directors or as executive officers. We are currently evaluating and monitoring developments with respect to these rules and
regulations, and we cannot predict or estimate with any degree of certainty the amount of additional costs we may incur or the timing of such costs.

In the past, shareholders of a public company often brought securities class action suits against the company following periods of instability in the market price of that company’s securities. If we were involved in a class action suit, it could divert a significant amount of our management’s attention and other resources from our business and operations, which could harm our results of operations and require us to incur significant expenses to defend the suit. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that reflect our current expectations and views of future events. The forward-looking statements are contained principally in the sections entitled “Prospectus Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business.” Known and unknown risks, uncertainties and other factors, including those listed under “Risk Factors,” may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

You can identify some of these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “is/are likely to,” “potential,” “continue” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, but are not limited to, statements relating to:

- our goals and strategies;
- our ability to retain and increase the number of users, paying members and advertisers, and expand our product and service offerings;
- our future business development, financial condition and results of operations;
- expected changes in our revenues, costs or expenditures;
- our expectation regarding the use of proceeds from this offering;
- competition in our industry and our popularity within the LGBTQ population; and
- relevant government policies and regulations relating to our industry.

These forward-looking statements involve various risks and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, our expectations may later be found to be incorrect. Our actual results could be materially different from our expectations. Important risks and factors that could cause our actual results to be materially different from our expectations are generally set forth in “Prospectus Summary—Our Challenges,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business,” “Regulation” and other sections in this prospectus. You should read thoroughly this prospectus and the documents that we refer to with the understanding that our actual future results may be materially different from and worse than what we expect. We qualify all of our forward-looking statements by these cautionary statements.

The forward-looking statements made in this prospectus relate only to events or information as of the date on which the statements are made in this prospectus. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this prospectus and the documents that we refer to in this prospectus and have filed as exhibits to the registration statement, of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect.
USE OF PROCEEDS

We estimate that we will receive net proceeds from this offering of approximately US$ \( \ldots \) million, or approximately US$ \( \ldots \) million if the underwriters exercise their option to purchase additional ADSs in full, after deducting underwriting discounts and commissions and the estimated offering expenses payable by us. These estimates are based upon an assumed initial offering price of US$ \( \ldots \) per ADS, the mid-point of the range shown on the front cover page of this prospectus. A US$1.00 change in the assumed initial public offering price of US$ \( \ldots \) per ADS would, in the case of an increase, increase and, in the case of a decrease, decrease the net proceeds of this offering by US$ \( \ldots \) million, or approximately US$ \( \ldots \) million if the underwriters exercise their option to purchase additional ADSs in full, assuming the sale of ADSs at US$ \( \ldots \) per ADS, the mid-point of the range shown on the front cover page of this prospectus and after deducting underwriting discounts and commissions and the estimated offering expenses payable by us.

We plan to use the net proceeds of this offering as follows:

- approximately US$ \( \ldots \) million for geographic expansion, including marketing and promotional activities to acquire users and strengthen our brand;
- approximately US$ \( \ldots \) million for technology and development, to continue to invest in and develop our technologies, particularly artificial intelligence technology, and big data capability; and
- the balance for general corporate purposes, which may include working capital needs and potential strategic acquisitions, investments and alliances.

The foregoing represents our current intentions based upon our present plans and business conditions to use and allocate the net proceeds of this offering. Our management, however, will have significant flexibility and discretion to apply the net proceeds of this offering. If an unforeseen event occurs or business conditions change, we may use the proceeds of this offering differently than as described in this prospectus.

Pending any use described above, we plan to invest the net proceeds from this offering in short-term, interest-bearing, debt instruments or demand deposits.
DIVIDEND POLICY

Our board of directors has complete discretion on whether to distribute dividends, subject to certain requirements of Cayman Islands law, namely that our company may only pay dividends out of profits or share premium, and provided always that in no circumstances may a dividend be paid out of share premium if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business. [In addition, our shareholders may declare a dividend by ordinary resolution, but no dividend may exceed the amount recommended by our board of directors.] Even if our board of directors decides to pay dividends on our ordinary shares, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors our board of directors may deem relevant.

We do not expect to pay any cash dividends on our ordinary shares in the foreseeable future after this offering. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

We are a holding company incorporated in the Cayman Islands. We may rely on dividends from our subsidiaries in China for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our WFOE to pay dividends to us. See “Regulation—PRC Regulation—Regulations Relating to Foreign Exchange and the Dividend Distribution.”

If we pay any dividends on our ordinary shares, we will pay those dividends which are payable in respect of the ordinary shares underlying our ADSs to the depositary, as the registered holder of such ordinary shares, and the depositary then will pay such amounts to our ADS holders in proportion to the ordinary shares underlying the ADSs held by such ADS holders, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. See “Description of American Depositary Shares.” Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.
The following table sets forth our capitalization as of December 31, 2019:

- on an actual basis;
- on a pro forma basis to reflect the automatic conversion of all of our issued and outstanding 9,560,830 preferred shares into 9,560,830 ordinary shares on a one-for-one basis immediately upon the completion of this offering; and
- on a pro forma as adjusted basis to reflect (i) the automatic conversion of all of our issued and outstanding 9,560,830 preferred shares into 9,560,830 ordinary shares on a one-for-one basis immediately upon the completion of this offering, and (ii) the sale of ordinary shares in the form of ADSs by us in this offering at an assumed initial public offering price of US$ per ADS, the mid-point of the estimated range of the initial public offering price shown on the front cover of this prospectus, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, assuming the underwriters do not exercise the over-allotment option.

You should read this table together with our consolidated financial statements and the related notes included elsewhere in this prospectus and the information under “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

<table>
<thead>
<tr>
<th>Mezzanine Equity</th>
<th>Actual</th>
<th>Pro forma</th>
<th>Pro forma as adjusted(1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Mezzanine equity</td>
<td>1,730,478</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Shareholders’ (Deficit)/Equity</th>
<th>Actual</th>
<th>Pro forma</th>
<th>Pro forma as adjusted(1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary shares (US$0.0001 par value, 5,614,840 shares issued and outstanding on an actual basis; US$0.0001 par value, 15,175,670 shares issued and outstanding on a pro forma basis; US$0.0001 par value, shares issued and outstanding on a pro forma as adjusted basis)</td>
<td>3</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Additional paid-in capital(2)</td>
<td>—</td>
<td>1,730,471</td>
<td></td>
</tr>
<tr>
<td>Accumulated other comprehensive loss</td>
<td>(41,102)</td>
<td>(41,102)</td>
<td></td>
</tr>
<tr>
<td>Accumulated deficit</td>
<td>(1,346,401)</td>
<td>(1,346,401)</td>
<td></td>
</tr>
<tr>
<td>Total shareholders’ (deficit)/equity(2)</td>
<td>(1,387,500)</td>
<td>342,978</td>
<td>342,978</td>
</tr>
<tr>
<td><strong>Total mezzanine equity and shareholders’ (deficit)/equity(2)</strong></td>
<td><strong>342,978</strong></td>
<td><strong>342,978</strong></td>
<td><strong>342,978</strong></td>
</tr>
</tbody>
</table>

Notes:

(1) The pro forma as adjusted information discussed above is illustrative only. Our additional paid-in capital, total shareholders’ equity and total capitalization following the completion of this offering are subject to adjustment based on the actual initial public offering price and other terms of this offering determined at pricing.

(2) A US$1.00 increase (decrease) in the assumed initial public offering price of US$ per share, the mid-point of the range set forth on the cover page of this prospectus, would increase (decrease) each of additional paid-in capital, total shareholders’ (deficit)/equity and total mezzanine equity and shareholders’ (deficit)/equity by US$ million.
If you invest in our ADSs, your interest will be diluted to the extent of the difference between the initial public offering price per ADS and our net tangible book value per ADS after this offering. Dilution results from the fact that the initial public offering price per ordinary share is substantially in excess of the book value per ordinary share attributable to the existing shareholders for our presently outstanding ordinary shares.

Our net tangible book value as of December 31, 2019 was approximately negative US$199 million, or negative US$35 per ordinary share and US$ per ADS. Net tangible book value represents the amount of our total consolidated tangible assets, less the amount of our total consolidated liabilities and total mezzanine equity. As of December 31, 2019, we do not have any intangible assets or goodwill, therefore, our total consolidated tangible assets is equivalent to our total consolidated assets. Dilution is determined by subtracting net tangible book value per ordinary share, after giving effect to the additional proceeds we will receive from this offering, from the assumed initial public offering price of US$ per ordinary share, which is the mid-point of the estimated initial public offering price range set forth on the cover page of this prospectus adjusted to reflect the ADS-to-ordinary share ratio, and after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

Without taking into account any other changes in net tangible book value after December 31, 2019, other than to give effect to our sale of the ADSs offered in this offering at the assumed initial public offering price of US$ per ADS, the mid-point of the estimated range of the initial public offering price, after deduction of the underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma as adjusted net tangible book value after giving effect to the conversion of our preferred shares would have been US$ million, or US$ per ordinary share and US$ per ADS. This represents an immediate increase in net tangible book value of US$ per ordinary share and US$ per ADS to the existing shareholders and an immediate dilution in net tangible book value of US$ per ordinary share and US$ per ADS to new investors in this offering. The following table illustrates such dilution:

<table>
<thead>
<tr>
<th>Per Ordinary Share</th>
<th>Per ADS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assumed initial public offering price</td>
<td>US$</td>
</tr>
<tr>
<td>Net tangible book value as of December 31, 2019</td>
<td>US$</td>
</tr>
<tr>
<td>Pro forma net tangible book value after giving effect to the conversion of our preferred shares</td>
<td>US$</td>
</tr>
<tr>
<td>Pro forma as adjusted net tangible book value after giving effect to the conversion of our preferred shares and this offering</td>
<td>US$</td>
</tr>
<tr>
<td>Amount of dilution in net tangible book value to new investors in this offering</td>
<td>US$</td>
</tr>
</tbody>
</table>

A US$1.00 increase (decrease) in the assumed initial public offering price of US$ per ADS would increase (decrease) our pro forma as adjusted net tangible book value per ordinary share and per ADS after giving effect to this offering by US$ per ordinary share and US$ per ADS and the dilution in pro forma as adjusted net tangible book value per ordinary share and per ADS to new investors in this offering by US$ per ordinary share and US$ per ADS, assuming no change to the number of ADSs offered by us as set forth on the cover page of this prospectus, and after deducting underwriting discounts and commissions and other offering expenses.

The following table summarizes, on a pro forma as adjusted basis as of December 31, 2019, the differences between existing shareholders and the new investors with respect to the number of ordinary shares (in the form of ADSs or shares) purchased from us, the total consideration paid and the average price per ordinary share and per ADS paid before deducting the underwriting discounts and commissions and estimated offering expenses. The
The total number of ordinary shares does not include ordinary shares underlying the ADSs issuable upon the exercise of the over-allotment option granted to the underwriters.

<table>
<thead>
<tr>
<th>Ordinary Shares Purchased</th>
<th>Total Consideration</th>
<th>Average Price Per Ordinary Share</th>
<th>Average Price Per ADS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Percent</td>
<td>Amount</td>
</tr>
<tr>
<td>Existing shareholders</td>
<td></td>
<td></td>
<td>US$</td>
</tr>
<tr>
<td>New investors</td>
<td></td>
<td></td>
<td>US$</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>100.0%</td>
<td>US$</td>
</tr>
</tbody>
</table>

The pro forma as adjusted information discussed above is illustrative only. Our net tangible book value following the completion of this offering is subject to adjustment based on the actual initial public offering price of our ADSs and other terms of this offering determined at pricing.

The discussion and tables above assume no exercise of any outstanding share options outstanding as of the date of this prospectus. As of the date of this prospectus, there are ordinary shares issuable upon exercise of outstanding share options at a weighted average exercise price of US$ per share. To the extent that any of these options are exercised, there will be further dilution to new investors.
ENFORCEABILITY OF CIVIL LIABILITIES

We are incorporated under the laws of the Cayman Islands as an exempted company with limited liability. We are incorporated in the Cayman Islands because of certain benefits associated with being a Cayman Islands exempted company, such as political and economic stability, an effective judicial system, a favorable tax system, the absence of foreign exchange control or currency restrictions and the availability of professional and support services. However, the Cayman Islands has a less developed body of securities laws than the United States and provides less protection for investors.

Our operations are substantially conducted in China, and substantially all of our assets are located in China. All of our directors and executive officers are nationals or residents of jurisdictions other than the United States and a substantial portion of their assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us or these persons, or to enforce judgments obtained in U.S. courts against us or them, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States. It may also be difficult for you to enforce judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors.

We have appointed [Agent's Name] as our agent to receive service of process with respect to any action brought against us in the U.S. District Court for the Southern District of New York in connection with this offering under the federal securities laws of the United States or the securities laws of any State in the United States or any action brought against us in the Supreme Court of the State of New York in the County of New York in connection with this offering under the securities laws of the State of New York.

Conyers Dill & Pearman, our counsel as to Cayman Islands law, has advised us that there is uncertainty as to whether the courts of the Cayman Islands would (1) recognize or enforce judgments of U.S. courts obtained against us or our directors or officers that are predicated upon the civil liability provisions of the federal securities laws of the United States or the securities laws of any state in the United States, or (2) entertain original actions brought in the Cayman Islands against us or our directors or officers that are predicated upon the federal securities laws of the United States or the securities laws of any state in the United States.

Conyers Dill & Pearman has informed us that the uncertainty with regard to Cayman Islands law relates to whether a judgment obtained from the U.S. courts under civil liability provisions of the securities law will be determined by the courts of the Cayman Islands as penal or punitive in nature. The courts of the Cayman Islands may not recognize or enforce such judgments against a Cayman company, and because such a determination has not yet been made by a court of the Cayman Islands, it is uncertain whether such civil liability judgments from U.S. courts would be enforceable in the Cayman Islands. Conyers Dill & Pearman has further advised us that the courts of the Cayman Islands would recognize a final and conclusive judgment in the federal or state courts of the United States under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) or, in certain circumstances, an in personam judgment for non-monetary relief, and would give a judgment based thereon provided that (a) such courts had proper jurisdiction over the parties subject to such judgment; (b) such courts did not contravene the rules of natural justice of the Cayman Islands; (c) such judgment was not obtained by fraud; (d) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands; (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands; and (f) there is due compliance with the correct procedures under the laws of the Cayman Islands.

King & Wood Mallesons, our counsel as to PRC law, has advised us that there is uncertainty as to whether the courts of the PRC would recognize or enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States.
King & Wood Mallesons has further advised us that the recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. There exists no treaty and few other forms of reciprocal arrangements between China and the United States or the Cayman Islands governing the recognition and enforcement of foreign judgments as of the date of this prospectus. In addition, according to the PRC Civil Procedures Law, courts in China will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates the basic principles of PRC law or national sovereignty, security or public interest. As a result, it is uncertain whether and on what basis a PRC court would enforce a judgment rendered by a court in the United States or in the Cayman Islands. Under the PRC Civil Procedures Law, foreign shareholders may originate actions based on PRC law before a PRC court against a company for disputes relating to contracts or other property interests, and the PRC court may accept a cause of action if such foreign shareholders can establish sufficient nexus to the PRC for a PRC court to have jurisdiction and meet other procedural requirements, including, among others, that the plaintiff must have a direct interest in the case, a specific defendant, and that there must be a concrete claim, a factual basis and a cause for the case. The PRC court will determine whether to accept the complaint in accordance with the PRC Civil Procedures Law. The shareholder may participate in the action by itself or entrust any other person or PRC legal counsel to participate on behalf of such shareholder. Foreign citizens and companies will have the same rights as PRC citizens and companies in an action unless the home jurisdiction of such foreign citizens or companies restricts the rights of PRC citizens and companies.

In addition, it will be difficult for U.S. shareholders to originate actions against us in China in accordance with PRC laws because we are incorporated under the laws of the Cayman Islands and it will be difficult for U.S. shareholders, by virtue only of holding our ADSs or ordinary shares, to establish sufficient nexus to China for a PRC court to have jurisdiction as required under the PRC Civil Procedures Law.
CORPORATE HISTORY AND STRUCTURE

In September 2011, our VIE, a PRC domestic company, was established. We launched our mobile app Blued in 2012.

In December 2013, BlueCity Holdings Limited was established in the Cayman Islands as our offshore holding company to facilitate financing and offshore listing. In March 2014, BlueCity Holdings Limited established a wholly-owned subsidiary in Hong Kong, BlueCity Holdings Hong Kong Limited.

In 2014, BlueCity Holdings Hong Kong Limited established our WFOE and we gained control over our VIE through our WFOE by entering into a series of contractual arrangements with our VIE and its shareholders. In June 2018, in order to reflect the change of shareholding of our VIE, we effected some restructuring of the equity ownership in our VIE, and a new series of contractual arrangements, whose terms are substantially the same with the previous contractual agreements, were subsequently entered into by and among our WFOE, our VIE and our VIE’s shareholders. For more details and risks related to our variable interest entity structure, please see “—Contractual Arrangements with our Consolidated Affiliated Entity and Its Shareholders” and “Risk Factors—Risks Related to Our Corporate Structure.” As a result of our direct ownership in our WFOE and the variable interest entity contractual arrangements, we are regarded as the primary beneficiary of our VIE. We treat our VIE as our consolidated affiliated entity under U.S. GAAP, and have consolidated the financial results of our VIE in our consolidated financial statements in accordance with U.S. GAAP.

The following diagram illustrates our corporate structure, including our significant subsidiaries and consolidated affiliated entities, as of the date of this prospectus:

[Diagram showing corporate structure]

Note:
(1) Mr. Baoli Ma, our founder and chief executive officer, and Mr. Changyou Ma, a family member of our founder, hold 99.15% and 0.85% equity interests in our VIE, respectively.

The following is a summary of the currently effective contractual arrangements relating to our WFOE and our VIE.
Contractual Arrangements with our VIE and Its Shareholders

Current PRC laws and regulations impose certain restrictions or prohibitions on foreign ownership of companies that engage in value-added telecommunication services and certain other businesses. We are an exempted company incorporated in the Cayman Islands. Our WFOE is our PRC subsidiary and a foreign-invested enterprise under PRC laws. To comply with PRC laws and regulations, we conduct certain of our business in China through our VIE, our consolidated affiliated entity in the PRC, through a series of contractual arrangements by and among our WFOE, our VIE and its shareholders.

Our contractual arrangements with our VIE and its respective shareholders allow us to (i) exercise effective control over our VIE, (ii) receive substantially all of the economic benefits of our VIE, (iii) have an exclusive option to purchase all or part of the equity interests in our VIE when and to the extent permitted by PRC law, and (iv) have the right to receive all dividends declared by the VIE and the right to all undistributed earnings of the VIE.

As a result of our direct ownership in our WFOE and the contractual arrangements with our VIE, we are regarded as the primary beneficiary of our VIE, and we treat them and their subsidiaries as our consolidated affiliated entities under U.S. GAAP. We have consolidated the financial results of our VIE and its subsidiaries in our consolidated financial statements in accordance with U.S. GAAP.

Agreements that provide us with effective control over our VIE

Powers of Attorney. Pursuant to the Powers of Attorney, dated June 26, 2018, between Mr. Baoli Ma and Mr. Changyou Ma, the shareholders of our VIE collectively executed powers of attorney to irrevocably authorize our WFOE to act as their attorney-in-fact to exercise all of their rights as shareholders of our VIE, including but not limited to, the right to attend shareholders meetings, to vote, to dispose equity interests under their names, and to recommend and appoint directors, chief managers and other senior management of the VIE as authorized representatives of the shareholders. The powers of attorney will remain permanently effective as long as Mr. Baoli Ma and Mr. Changyou Ma remain as shareholders of our VIE, unless otherwise terminated by our WFOE.

Equity Interest Pledge Agreement. Pursuant to the equity interest pledge agreement, dated June 26, 2018, among our WFOE and the shareholders of our VIE, the shareholders of our VIE have collectively pledged 100% equity interests in our VIE to our WFOE to guarantee the performance by our VIE of its obligations under the Exclusive Consulting and Services Agreement. In the event of a breach by our VIE of contractual obligations under these contractual arrangements, our WFOE, as pledgee, will have the right to dispose of the pledged equity interests in our VIE and will have priority in receiving the proceeds from such disposal. The shareholders of our VIE also covenant that, without the prior written consent of our WFOE, they will not dispose of, create or allow any encumbrance on the pledged equity interests. The equity interest pledge agreement will remain effective until (i) the termination of the Exclusive Consulting and Services Agreement with all service fees under the Exclusive Consulting and Services Agreement have been paid and no further obligation shall be undertaken by BlueCity Culture Media; or (ii) the equity interests of BlueCity Culture Media have been transferred to BlueCity Information Technology or any third party designated by it.

We have filed the registration of the equity interest pledge under the equity interest pledge agreement in relation to our VIE with the relevant office of the State Administration of Market Regulation in accordance with the PRC Property Rights Law.

Spouse Consent Letters. Pursuant to the spouse consent letter, dated June 26, 2018, the spouse of Mr. Changyou Ma, confirmed that she can perform the obligations under the contractual arrangements. The spouse of Mr. Changyou Ma agreed that the equity interest in VIE held by Mr. Changyou Ma and registered in the name of Mr. Changyou Ma will be disposed of pursuant to the exclusive consulting and service agreement, exclusive option agreement, equity interest pledge agreement and the powers of attorney. In addition, in the event that the spouse of Mr. Changyou Ma obtains any equity interest in the VIE for any reason, she agreed to be bound by the contractual arrangements.
Agreements that allow us to receive economic benefits from our VIE

Exclusive Consulting and Services Agreement. Pursuant to the exclusive consulting and services agreement, dated June 26, 2018, between our WFOE and our VIE, our WFOE has the exclusive right to provide consulting and services required by our VIE’s business. Without our WFOE’s prior written consent, our VIE may not accept the consulting and services provided by any third party, including its shareholders, during the term of the agreement. Our VIE agrees to pay our WFOE quarterly service fees at an amount confirmed by WFOE and all of its subsidiaries, which amount and percentage may be adjusted by, which should be paid within 10 business days upon receipt of invoice from our WFOE. Our WFOE has the exclusive ownership of all the intellectual property rights created under the Exclusive Consulting and Services Agreement, and both parties will further negotiated on the license of such intellectual properties. The exclusive consulting and services agreement will remain effective, unless otherwise terminated by our WFOE.

Agreements that provide us with the option to purchase the equity interests in our VIE

Exclusive Option Agreement. Pursuant to the exclusive option agreement, dated June 26, 2018, among our WFOE and shareholders of our VIE, the shareholders of our VIE have irrevocably granted our WFOE an exclusive option to purchase all or part of their equity interests in our VIE and/or the assets in our VIE. Our WFOE may exercise such options at the lowest price as permitted by PRC laws and regulations, which price may be adjusted based on the valuation of the equity interests of the assets, if required by PRC laws and regulations. The equity holders should remit to our company any amount that is paid by our company or its designated person(s) in connection with the purchased equity interest. Our VIE and the shareholders of covenant that, without our WFOE’s prior written consent, they will not, among other things, (i) transfer or otherwise dispose of, or create any pledge or encumbrance on their equity interests in our VIE, (ii) change our VIE’s registered capital, or increase or decrease the our VIE’s current equity interests owners, (iii) dispose or make our VIE’s management to dispose any assets of our VIE, other than in the ordinary course of business, or (iv) amend our VIE’s articles of association. The exclusive options agreement will remain effective until shareholders of our VIE have transferred all of their equity interests and/or assets in our VIE to our WFOE or any third party so designated, unless otherwise terminated by our WFOE immediately in its sole discretion with written notice.

In the opinion of King & Wood Mallesons, our PRC legal counsel:

• the ownership structures of our VIE in China and our WFOE, both currently and immediately after giving effect to this offering, are not in violation of applicable PRC laws and regulations currently in effect; and

• the contractual arrangements between our WFOE, our VIE and its shareholders governed by PRC law are legal, valid, binding and enforceable against each party thereto in accordance with their terms and applicable PRC laws and regulations currently in effect.

However, our PRC legal counsel has also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. Accordingly, the PRC regulatory authorities may take a view that is contrary to the opinion of our PRC legal counsel. It is uncertain whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. If we or our VIE are found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures. See “Risk Factors—Risks Relating to Our Corporate Structure—If the PRC government finds that the agreements that establish the structure for operating some of our operations in China do not comply with PRC regulations relating to the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations” and “Risk Factors—Risks Relating to Doing Business in China—Uncertainties with respect to the PRC legal system and changes in laws and regulations in China could adversely affect us.”
SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated statements of comprehensive loss data and cash flow data for the years ended December 31, 2018 and 2019, selected consolidated balance sheets data as of December 31, 2018 and 2019 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP. Our historical results are not necessarily indicative of results expected for future periods. You should read this Selected Consolidated Financial Data section together with our consolidated financial statements and the related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this prospectus.

<table>
<thead>
<tr>
<th>Table: Selected Consolidated Statements of Comprehensive Loss Data:</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>501,292</td>
<td>758,888</td>
</tr>
<tr>
<td><strong>Cost of revenues</strong></td>
<td>(388,385)</td>
<td>(546,211)</td>
</tr>
<tr>
<td><strong>Selling and marketing expenses</strong></td>
<td>(98,011)</td>
<td>(119,437)</td>
</tr>
<tr>
<td><strong>Technology and development expenses</strong></td>
<td>(93,985)</td>
<td>(129,652)</td>
</tr>
<tr>
<td><strong>General and administrative expenses</strong></td>
<td>(70,072)</td>
<td>(24,439)</td>
</tr>
<tr>
<td><strong>Total cost and expenses</strong></td>
<td>(650,453)</td>
<td>(819,739)</td>
</tr>
<tr>
<td><strong>Operating loss</strong></td>
<td>(149,161)</td>
<td>(60,851)</td>
</tr>
<tr>
<td><strong>Changes in fair value of financial instruments</strong></td>
<td>4,044</td>
<td>(9,024)</td>
</tr>
<tr>
<td><strong>Gain on extinguishment of a convertible debt</strong></td>
<td>—</td>
<td>8,986</td>
</tr>
<tr>
<td><strong>Interest income</strong></td>
<td>8,645</td>
<td>8,890</td>
</tr>
<tr>
<td><strong>Loss before income taxes</strong></td>
<td>(144,560)</td>
<td>(51,999)</td>
</tr>
<tr>
<td><strong>Income tax expense</strong></td>
<td>—</td>
<td>(931)</td>
</tr>
<tr>
<td><strong>Net loss</strong></td>
<td>(144,560)</td>
<td>(52,930)</td>
</tr>
<tr>
<td><strong>Deemed dividend to Series D Redeemable Convertible Preferred Shareholders</strong></td>
<td>(1,535)</td>
<td>—</td>
</tr>
<tr>
<td><strong>Accretion and modification of redeemable convertible preferred shares to redemption value</strong></td>
<td>(236,615)</td>
<td>631,005</td>
</tr>
<tr>
<td><strong>Net loss attributable to ordinary shareholders</strong></td>
<td>(382,710)</td>
<td>(683,935)</td>
</tr>
<tr>
<td><strong>Net loss per ordinary share</strong></td>
<td>—Basic and diluted</td>
<td>(68.16)</td>
</tr>
<tr>
<td><strong>Weighted average number of shares outstanding used in computing net loss per ordinary share</strong></td>
<td>—Basic and diluted</td>
<td>5,614,840</td>
</tr>
</tbody>
</table>
Non-GAAP Financial Measure(1):

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted net loss</td>
<td>(90,249)</td>
<td>(52,892)</td>
<td>(7,598)</td>
</tr>
</tbody>
</table>

(1) See "Prospectus Summary—Summary Consolidated Financial Data—Non-GAAP Financial Measure."

The following table presents our selected consolidated balance sheets data as of December 31, 2018 and 2019:

<table>
<thead>
<tr>
<th>Selected Consolidated Balance Sheets Data:</th>
<th>2018 RMB (in thousands)</th>
<th>2019 RMB (in thousands)</th>
<th>US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>63,047</td>
<td>297,274</td>
<td>42,701</td>
</tr>
<tr>
<td>Term deposits</td>
<td>371,766</td>
<td>83,017</td>
<td>11,925</td>
</tr>
<tr>
<td>Total current assets</td>
<td>483,049</td>
<td>433,994</td>
<td>62,339</td>
</tr>
<tr>
<td>Total assets</td>
<td>510,476</td>
<td>466,876</td>
<td>67,062</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>120,597</td>
<td>123,898</td>
<td>17,797</td>
</tr>
<tr>
<td>Total mezzanine equity</td>
<td>1,074,916</td>
<td>1,730,478</td>
<td>248,567</td>
</tr>
<tr>
<td>Total shareholders’ deficit</td>
<td>(685,037)</td>
<td>(1,387,500)</td>
<td>(199,302)</td>
</tr>
</tbody>
</table>

The following table presents our summary consolidated cash flow data for the years ended December 31, 2018 and 2019:

<table>
<thead>
<tr>
<th>Selected Consolidated Statements of Cash Flow Data:</th>
<th>2018 RMB (in thousands)</th>
<th>2019 RMB (in thousands)</th>
<th>US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash used in operating activities</td>
<td>(103,428)</td>
<td>(31,642)</td>
<td>(4,545)</td>
</tr>
<tr>
<td>Net cash (used in)/provided by investing activities</td>
<td>(113,172)</td>
<td>285,594</td>
<td>41,023</td>
</tr>
<tr>
<td>Net cash provided by/(used in) financing activities</td>
<td>166,251</td>
<td>(22,252)</td>
<td>(3,196)</td>
</tr>
<tr>
<td>Effect of foreign currency exchange rate changes on cash</td>
<td>3,407</td>
<td>2,527</td>
<td>363</td>
</tr>
<tr>
<td>Net (decrease)/increase in cash and cash equivalents</td>
<td>(46,942)</td>
<td>234,227</td>
<td>33,645</td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the year</td>
<td>109,989</td>
<td>63,047</td>
<td>9,056</td>
</tr>
<tr>
<td>Cash and cash equivalents at the end of the year</td>
<td>63,047</td>
<td>297,274</td>
<td>42,701</td>
</tr>
</tbody>
</table>
MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the section entitled “Selected Consolidated Financial Data” and our consolidated financial statements and the related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Risk Factors” and elsewhere in this prospectus. See “Special Note Regarding Forward-Looking Statements.”

Overview

We have a large and active user base which primarily consists of LGBTQ persons in China and the rest of Asia, and provide a full suite of services empowering LGBTQ persons in all aspects of their daily lives and addressing their chronic pain points. As a central hub of BlueCity's services and platforms, the Blued mobile app allows our users to connect with each other, express themselves, access professional health related services and family planning services at their fingertips.

Blued is a world’s leading LGBTQ platform in terms of average MAUs in 2019, according to the Frost & Sullivan Report. We are the dominant leader in China. In 2019, we had average MAUs and average DAUs over six and nearly seven times that of the next largest player in China, respectively, according to the Frost & Sullivan Report. Blued’s average MAUs grew from 4.1 million in the three months ended March 31, 2018 to 5.9 million in the three months ended December 31, 2019. Leveraging our experience in China, we have successfully expanded into a number of overseas markets and established a strong global presence. We are the largest online LGBTQ community in India, Korea, Thailand and Vietnam in terms of average MAUs in 2019, according to the Frost & Sullivan Report. We are rapidly expanding into new markets, and have users spanning over 200 countries and regions as of December 31, 2019. Users in countries and regions outside of China represented over 40% of our total MAUs in December 2019. Despite our global footprint, approximately 3.4% and 6.6% of our total revenues for 2018 and 2019, respectively, were contributed by users outside China. We are still in the early stage of generating revenue from our users outside China and are continuing to introduce diversified service offerings to cater to their different needs. Currently, Blued is primarily used by homosexual men, while all of our services are available to the general LGBTQ population.

We generate revenues through various services we provide for LGBTQ community. Our total revenues increased by 51.4% to RMB758.9 million (US$109.0 million) in 2019 from RMB501.3 million in 2018. Our net loss decreased by 63.4% to RMB52.9 million (US$7.6 million) in 2019 from RMB144.6 million in 2018.

Key Factors Affecting Our Results of Operations

User growth and engagement

We generate revenue primarily through (i) live streaming services, (ii) membership services, (iii) advertising services, and (iv) others including family planning services and health-related services. Our revenues are driven by and highly dependent on the growth in our active user base, which includes our users on both domestic and international versions of our mobile app and users of our various products and services. We have experienced rapid user growth since our inception. Strategies that we pursue to achieve active user growth may affect our costs and expenses and results of operations.
The following table sets forth our average MAUs and DAUs on *Blued* for each of the quarters indicated:

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average MAUs</strong></td>
<td>4.1</td>
<td>4.5</td>
<td>4.7</td>
<td>4.9</td>
<td>5.0</td>
<td>5.7</td>
<td>5.9</td>
<td>5.9</td>
</tr>
<tr>
<td><strong>Average DAUs</strong></td>
<td>2.0</td>
<td>2.1</td>
<td>2.2</td>
<td>2.2</td>
<td>2.3</td>
<td>2.4</td>
<td>2.5</td>
<td>2.6</td>
</tr>
</tbody>
</table>

We have generally achieved continuous growth in our user base throughout these periods.

Changes in user engagement could affect our revenues and financial results. Our average next-month retention rate slightly decreased from 75.2% in 2018 to 71.0% in 2019, primarily attributable to the fact that our overseas MAUs grew substantially while we were in the early stage of solidifying our user bases outside China. In 2019, *Blued* had an average daily time spent per active user of over 60 minutes and an average daily sessions per active user of over 16 times, according to the Frost & Sullivan Report. Active user engagement powered by diverse functionalities and rich content enables us to secure an abundant supply of user profiles and behavioral data, which is essential for our advertising services and our ability to improve our service features, including our membership subscription packages.

### Monetization of our user base

Our revenues and results of operations depend on our ability to monetize our user base, to convert more users to paying users and to increase the spending of our paying users. Paying users on our platform include users who make payments for various products and services offered on our platform, including payments for virtual currency which can be used to purchase and send virtual gifts in live streaming, purchase membership services, payment for health-related services and family planning services. Currently, revenues generated from live streaming is the largest component of our revenues, and we expect revenues generated from our recently launched membership services will grow quickly.

Our ARPPU for live streaming services increased from RMB1,279 in 2018 to approximately RMB2,059 in 2019, primarily due to more interactive and engaging formats and features offered in our live streaming business. Our paying users for live streaming services slightly decreased from approximately 358 thousand in 2018 to 326 thousand in 2019, primarily because we focused on attracting and converting users with higher spending willingness and spending ability and we allocated more resources to the marketing of new and improved features. We launched our membership services in June 2018, and our paying users for membership services increased from approximately 85 thousand in 2018 to 457 thousand in 2019. We made substantial monetization progress in international markets in 2019. We launched subscription-based membership services for the international version of *Blued* in the fourth quarter of 2019. We are committed to continually developing innovative membership services tailored to the needs of our users.

We will continue to diversify our product and service offerings and expand our monetization channels without compromising user experience. We seek to strengthen our capability to generate revenue from live streaming by optimizing matching of broadcasters and viewers and adopting additional creative ways of virtual gifting. We also plan to curate more premium content and attract more high-quality influencers to our platform, in order to increase viewers’ willingness to pay. Meanwhile, we will gradually expand our advertising revenue through development of more innovative advertising formats and comprehensive mobile marketing solutions for both China’s and global advertisers. Furthermore, we plan to test our offerings in selected global markets with localized functionalities and features. We are also testing new features and geography for our membership services. Our revenue growth will be affected by our ability to effectively execute our monetization strategies and expand our paying user base.
Our brand recognition and market leadership

BlueCity is a spiritual home for LGBTQ people, encouraging them to be themselves, feel good about themselves and embrace the community. Blued’s average MAUs grew from 4.1 million in the three months ended March 31, 2018 to 5.9 million in the three months ended December 31, 2019. BlueCity’s and Blued’s prominent market leadership and brand recognition is key to our ability to maintain and enhance relationships with our users, broadcasters, advertisers, and other business partners, and increase our revenues. In addition, the reputation and attractiveness of our platform among the LGBTQ community also serves as a highly efficient marketing channel for our products and services.

Our ability to further improve cost efficiency

Our results of operations depend on our ability to manage our costs and expenses. Our cost of revenues consists primarily of revenue-sharing costs, staff costs and processing fees and service charges payable to third-party business partners. It is critical for us to manage our costs and expenses effectively and improve operational efficiency. We expect the absolute amount of our staff costs to increase as we grow our business. We will also invest in the growth of our platform by incurring selling and marketing expenses as we expand into global markets and promote more diversified services for the LGBTQ community.

Investment in technology and talent

Our technology is critical for us to retain and attract users and business partners. We must continue to innovate to keep pace with the growth of our industry. Our current technology and development efforts are primarily focused on enhancing our artificial intelligence technology and big data analytics capabilities, which we believe are crucial for us to scale our products and services and improve user experience. For example, leveraging both big data analytics and artificial intelligence technologies, we were able to enhance the accuracy of content monitoring and user profiling, and optimize our operation, targeted content and user experience. There is a strong demand in China’s internet industry in general for talented and experienced personnel. To keep up with the pace of our global expansion, we must recruit, retain and motivate talented employees both in managerial and operational levels who are equipped with relevant industry insights and experience, while controlling our personnel-related expenses.

Successful implementation of globalization strategies

We have successfully replicated our business model in China to other markets. We are the largest online LGBTQ community in India, Korea, Thailand and Vietnam in terms of average MAUs in 2019, according to the Frost & Sullivan Report. We are rapidly expanding into new markets, and have users spanning over 200 countries and regions as of December 31, 2019. Users from countries and regions outside of China represented over 40% of our total MAUs in December 2019. Despite our global footprint, approximately 3.4% and 6.6% of our total revenues for 2018 and 2019, respectively, were contributed by users outside China. We are still in the early stage of generating revenue from our users outside China and are continuing to introduce diversified service offerings to cater to their different needs. We believe that our expansion and penetration into selected global markets will not only drive our revenue growth but also diversify our revenue streams across geographic regions.
Key Components of Results of Operations

Revenues

The following table sets forth the components of our revenues by amounts and percentages of our total revenues for the periods presented:

<table>
<thead>
<tr>
<th></th>
<th>For the Years Ended December 31,</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2019</td>
<td></td>
</tr>
<tr>
<td></td>
<td>RMB</td>
<td>%</td>
<td>RMB</td>
</tr>
<tr>
<td></td>
<td>(in thousands, except for percentages)</td>
<td>US$</td>
<td>%</td>
</tr>
<tr>
<td>Live streaming services</td>
<td>457,778</td>
<td>91.3</td>
<td>671,411</td>
</tr>
<tr>
<td>Membership services</td>
<td>4,717</td>
<td>0.9</td>
<td>36,738</td>
</tr>
<tr>
<td>Advertising services</td>
<td>32,920</td>
<td>6.6</td>
<td>35,384</td>
</tr>
<tr>
<td>Others</td>
<td>5,877</td>
<td>1.2</td>
<td>15,355</td>
</tr>
<tr>
<td>Total revenues</td>
<td>501,292</td>
<td>100.0</td>
<td>758,888</td>
</tr>
</tbody>
</table>

*Live streaming services.* We generate revenues from our live streaming services through sales of virtual gift items which users can send to broadcasters to show support. The virtual gift items sold comprise of decorations and other consumable special effects. Under the arrangements with talent agencies that manage broadcasters, we share with these talent agencies a portion of the revenues derived from the sales of virtual gift items. We expect revenues from live streaming services to continue to grow in absolute terms.

*Membership services.* We generate revenues from membership services by sales of (i) subscription-based membership services, and (ii) pay-per-use services. Our members are entitled to additional functionalities and privileges on our mobile app. We expect revenues from membership services to continue to grow in absolute terms as we continue to expand our user base and product offerings.

*Advertising services.* We generate revenues from advertising services through display advertising arrangements on Blued. Advertising arrangements allow advertisers to place advertisements on particular areas on the Blued application, in particular formats and over particular periods. We will continue to introduce new advertising and marketing solutions and attract more advertisers.

*Others.*

Our other revenues primarily consist of family planning services, online pharmacy related to He Health and others. We generate revenues from family planning services by providing comprehensive consulting and administrative services to our customers such as ongoing facilitation of physical checks, remote conference with global experts, visa application support, and logistics arrangement for overseas trips.
Cost and expenses

Cost of revenues

The following table sets forth the components of our cost of revenues by amounts and percentages of our total revenues for the periods presented:

<table>
<thead>
<tr>
<th>Cost of revenues</th>
<th>For the Years Ended December 31,</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RMB</td>
<td>%</td>
<td>RMB</td>
</tr>
<tr>
<td></td>
<td>(in thousands, except for percentages)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue-sharing costs</td>
<td>309,250</td>
<td>61.7</td>
<td>443,106</td>
</tr>
<tr>
<td>Commission costs</td>
<td>51,361</td>
<td>10.3</td>
<td>70,711</td>
</tr>
<tr>
<td>Staff costs</td>
<td>15,159</td>
<td>3.0</td>
<td>17,445</td>
</tr>
<tr>
<td>Others</td>
<td>12,615</td>
<td>2.5</td>
<td>14,949</td>
</tr>
<tr>
<td>Total cost of revenues</td>
<td>388,385</td>
<td>77.5</td>
<td>546,211</td>
</tr>
</tbody>
</table>

Revenue-sharing costs consist of broadcasters fees paid to talent agencies in accordance with our revenue-sharing arrangements. Commission costs consist of processing fees paid to mobile app stores and third-party payment platforms service charges. Staff costs consist of salaries and benefits for our employees involved in the operation of our app, website and live streaming. Other costs consist of rental, depreciation and other costs related to our business operation.

Operating expenses

The following table sets forth the components of our operating expenses by amounts and percentages of our total revenues for the periods presented:

<table>
<thead>
<tr>
<th>Operating expenses</th>
<th>For the Years Ended December 31,</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RMB</td>
<td>%</td>
<td>RMB</td>
</tr>
<tr>
<td></td>
<td>(in thousands, except for percentages)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selling and marketing expenses</td>
<td>98,011</td>
<td>19.6</td>
<td>119,437</td>
</tr>
<tr>
<td>Technology and development expenses</td>
<td>93,985</td>
<td>18.7</td>
<td>129,652</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>70,072</td>
<td>14.0</td>
<td>24,439</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>262,068</td>
<td>52.3</td>
<td>273,528</td>
</tr>
</tbody>
</table>

Selling and marketing expenses. Selling and marketing expenses consist primarily of (i) advertising and market promotion expenses, (ii) staff cost for our selling and marketing personnel, and (iii) overhead charges and other costs related to selling and marketing functions. We expect our selling and marketing expenses to increase in absolute amounts in the foreseeable future due to increasing investment in marketing activities to attract and retain users, as well as to maintain our brand awareness and leadership.

Technology and development expenses. Technology and development expenses consist primarily of staff cost for technology and development personnel and technology infrastructure costs. Technology infrastructure costs include servers and other equipment depreciation, bandwidth and cloud infrastructure costs, utilities and other expenses necessary to support our business. We expect our technology and development expenses to increase in absolute amount as we expand our technology and development team, to enhance our artificial intelligence technology, big data analytics capabilities and develop new features and functionalities on our platform.
General and administrative expenses. General and administrative expenses consist primarily of staff cost for general and administrative personnel, share-based compensation expenses, professional fees, rental and depreciation related to general and administrative functions, and other corporate expenses. We expect our general and administrative expenses to increase in absolute amounts in the foreseeable future due to the anticipated growth of our business as well as accounting, insurance, investor relations and other public company costs.

Taxation

Cayman Islands

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

Further, no stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

Hong Kong

Our subsidiary incorporated in Hong Kong, BlueCity Holdings Hong Kong Limited, is subject to 16.5% Hong Kong profit tax on its taxable income generated from operations in Hong Kong. Under the Hong Kong tax laws, we are exempted from the Hong Kong income tax on our foreign-derived income. In addition, payments of dividends from our Hong Kong subsidiary to us are not subject to any Hong Kong withholding tax.

PRC

Generally, our VIE and its subsidiaries are subject to enterprise income tax on their taxable income in China at a statutory rate of 25%. The enterprise income tax is calculated based on the entity’s global income as determined under PRC tax laws and accounting standards. According to the PRC tax laws, entities that qualify as “high-and-new technology enterprises eligible for key support from the State” (“HNTE”) are entitled to a preferential income tax rate of 15%. In 2017, our WFOE received the approval from the tax authority that it qualified as an HNTE. The certificate entitled our WFOE to the preferential income tax rate of 15% effective retroactively from January 1, 2017 to December 31, 2019.

Dividends paid by our WFOE in China to our intermediary holding company in Hong Kong will be subject to a withholding tax rate of 10%, unless the relevant Hong Kong entity satisfies all the requirements under the Arrangement between China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income and Capital and receives approval from the relevant tax authority. If our Hong Kong subsidiary satisfies all the requirements under the tax arrangement and receives approval from the relevant tax authority, then the dividends paid to the Hong Kong subsidiary would be subject to withholding tax at the standard rate of 5%. Effective from November 1, 2015, the above mentioned approval requirement has been abolished, but a Hong Kong entity is still required to file an application package with the relevant tax authority, and settle the overdue taxes if the preferential 5% tax rate is denied based on the subsequent review of the application package by the relevant tax authority. See “Risk Factors—Risks Related to Our Corporate Structure—There are significant uncertainties under the PRC Enterprise Income Tax Law relating to the withholding tax liabilities of our WFOE, and dividends payable by our WFOE to our offshore subsidiaries may not qualify to enjoy certain treaty benefits.”

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If our holding company in the Cayman Islands or any of our subsidiaries outside of China were deemed to be a “resident enterprise” under the PRC Enterprise Income Tax Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. See “Risk Factors—Risks Related to Doing Business in China—If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders.”

Results of Operations

The following table sets forth a summary of our consolidated results of operations for the periods presented, both in absolute amount and as a percentage of our revenues for the periods presented. This information should be read together with our consolidated financial statements and related notes included elsewhere in this prospectus. The results of operations in any period are not necessarily indicative of our future trends.

<table>
<thead>
<tr>
<th></th>
<th>For the Years Ended December 31,</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2019</td>
<td>2019</td>
</tr>
<tr>
<td></td>
<td>RMB</td>
<td>%</td>
<td>RMB</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(in thousands)</td>
<td>US$</td>
</tr>
<tr>
<td>Revenues:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Live streaming services</td>
<td>457,778</td>
<td>91.3</td>
<td>671,411</td>
</tr>
<tr>
<td>Membership services</td>
<td>4,717</td>
<td>0.9</td>
<td>36,738</td>
</tr>
<tr>
<td>Advertising services</td>
<td>32,920</td>
<td>6.6</td>
<td>35,384</td>
</tr>
<tr>
<td>Others</td>
<td>5,877</td>
<td>1.2</td>
<td>15,355</td>
</tr>
<tr>
<td>Total revenues</td>
<td>501,292</td>
<td>100.0</td>
<td>758,888</td>
</tr>
<tr>
<td>Cost and expenses:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of revenues(1)</td>
<td>(388,385)</td>
<td>(77.5)</td>
<td>(546,211)</td>
</tr>
<tr>
<td>Selling and marketing expenses(1)</td>
<td>(98,011)</td>
<td>(19.6)</td>
<td>(119,437)</td>
</tr>
<tr>
<td>Technology and development expenses(1)</td>
<td>(93,985)</td>
<td>(18.7)</td>
<td>(129,652)</td>
</tr>
<tr>
<td>General and administrative expenses(1)(2)</td>
<td>(70,072)</td>
<td>(14.0)</td>
<td>(24,439)</td>
</tr>
<tr>
<td>Total cost and expenses</td>
<td>(650,453)</td>
<td>(129.8)</td>
<td>(819,739)</td>
</tr>
<tr>
<td>Operating loss</td>
<td>(149,161)</td>
<td>(29.8)</td>
<td>(60,851)</td>
</tr>
<tr>
<td>Changes in fair value of financial instruments</td>
<td>(4,044)</td>
<td>(0.8)</td>
<td>(9,024)</td>
</tr>
<tr>
<td>Gain on extinguishment of a convertible debt</td>
<td>—</td>
<td>—</td>
<td>8,986</td>
</tr>
<tr>
<td>Interest income</td>
<td>8,645</td>
<td>1.7</td>
<td>8,890</td>
</tr>
<tr>
<td>Loss before income taxes</td>
<td>(144,560)</td>
<td>(28.9)</td>
<td>(51,999)</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>—</td>
<td>—</td>
<td>(931)</td>
</tr>
<tr>
<td>Net loss</td>
<td>(144,560)</td>
<td>(28.9)</td>
<td>(52,930)</td>
</tr>
</tbody>
</table>

Note:
(1) As of December 31, 2018 and 2019, no share options were exercisable, since they can only be exercised upon consummation of this offering. As of December 31, 2018 and 2019, the total fair value of options granted to employees amounted to RMB59.1 million and RMB90.1 million, respectively. See notes to our consolidated financial statements included elsewhere in this prospectus.
(2) On April 12, 2018, we approved a repurchase of 288,240 unvested share options from BlueCity Media Limited, which is owned by Mr. Baoli Ma, our founder and chief executive officer, with consideration of US$8.0 million (RMB50.3 million), which was recognized in general and administrative expenses as share-based compensation expenses.

Year ended December 31, 2019 compared to year ended December 31, 2018

Revenues

Our revenues increased by 51.4% from RMB501.3 million in 2018 to RMB758.9 million (US$109.0 million) in 2019.
Live streaming services. Our revenues from live streaming services increased by 46.7% from RMB457.8 million in 2018 to RMB671.4 million (US$96.4 million) in 2019, mainly attributable to continued growth in China and increased ARPPU, as well as deepened penetration and increased monetization efforts in overseas markets. Meanwhile, we further developed diverse live streaming features and engaging content to attract more viewers. Our ARPPU for live streaming services increased from approximately RMB1,279 in 2018 to approximately RMB2,059 in 2019.

Membership services. We launched our membership services in June 2018. Our revenues from membership services were RMB36.7 million (US$5.3 million) in 2019, compared to RMB4.7 million in 2018. We introduced diverse and innovative membership service offerings in 2018 and continued to develop and optimize them in 2019. We saw an increasing pool of paying users for our membership services, which was increased from approximately 85 thousand in 2018 to 457 thousand in 2019.

Advertising services. Our revenues from advertising services increased by 7.5% from RMB32.9 million in 2018 to RMB35.4 million (US$5.1 million) in 2019, as we steadily grew our advertising services while ensuring high-quality user experience of our platform.

Others. Our revenues from other services increased by 161.3% from RMB55.9 million in 2018 to RMB15.4 million (US$2.2 million) in 2019, mainly attributable to the development of our family planning services and health-related services.

Cost of revenues

Our cost of revenues increased by 40.6% from RMB388.4 million in 2018 to RMB546.2 million (US$78.5 million) in 2019. Revenue-sharing costs increased by 43.3% from RMB309.2 million in 2018 to RMB443.1 million (US$63.6 million) in 2019, primarily due to the expansion and growth in live streaming services. Commission costs increased by 37.7% from RMB51.4 million in 2018 to RMB70.7 million (US$10.2 million) in 2019, primarily due to the increase of our business and transaction volume on our platform. Staff costs increased by 15.1% from RMB15.2 million in 2018 to RMB17.4 million (US$2.5 million) in 2019, primarily due to an increase in headcount as a result of the growth of our business.

Selling and marketing expenses

Our selling and marketing expenses increased by 21.9% from RMB98.0 million in 2018 to RMB119.4 million (US$17.2 million) in 2019, primarily attributable to (i) an increase of RMB14.9 million (US$2.1 million) in staff cost for selling and marketing personnel, which was in turn mainly driven by an increase in head count of our selling and marketing staff, and (ii) an increase of RMB4.6 million (US$0.7 million) in advertising and promotion expenses associated with the expansion of our business in global markets.

Technology and development expenses

Our technology and development expenses increased by 37.9% from RMB94.0 million in 2018 to RMB129.7 million (US$18.6 million) in 2019, primarily due to (i) an increase of RMB23.0 million (US$3.3 million) in staff cost for technology and development personnel, which was in turn mainly driven by an increase in head count of our technology and development staff, and (ii) an increase of RMB11.5 million (US$1.7 million) in bandwidth and cloud infrastructure costs due to the development and growth of our online services.

General and administrative expenses

Our general and administrative expenses decreased by 65.1% from RMB70.1 million in 2018 to RMB24.4 million (US$3.5 million) in 2019, primarily due to the share-based compensation expense we recognized in 2018. The share-based compensation expense was incurred in connection with a repurchase of unvested share options from our management for a consideration of US$8.0 million (RMB50.3 million) in April 2018.
Operating loss

As a result of the foregoing, we incurred operating loss of RMB60.8 million (US$8.7 million) in 2019, compared to operating loss of RMB149.2 million in 2018.

Changes in fair value of financial instruments

We incurred loss from changes in fair value of convertible debt and equity securities with readily determinable fair value of RMB4.0 million and RMB9.0 million (US$1.3 million) in 2018 and 2019, respectively.

Gain on extinguishment of a convertible debt

We recognized a RMB8.9 million (US$1.3 million) gain on extinguishment of a convertible debt in 2019, resulting from the extinguishment of a convertible debt. We had no such gain in 2018.

Interest income

Interest income primarily represents interest earned on our cash and cash equivalents and term deposits. We had interest income of RMB8.6 million and RMB8.9 million (US$1.3 million) in 2018 and 2019, respectively.

Income tax expense

We recorded nil and RMB0.9 million (US$0.1 million) income tax expense in 2018 and 2019, respectively.

Net loss

As a result of the foregoing, we incurred net loss of RMB52.9 million (US$7.6 million) in 2019, compared to net loss of RMB144.6 million in 2018.

Liquidity and Capital Resources

The following table sets forth a summary of our cash flows for the periods presented:

<table>
<thead>
<tr>
<th>Summary Consolidated Cash Flow Data</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Net cash used in operating activities</td>
</tr>
<tr>
<td>Net cash (used in)/provided by investing activities</td>
</tr>
<tr>
<td>Net cash provided by/(used in) financing activities</td>
</tr>
<tr>
<td>Effect of foreign currency exchange rate changes on cash and cash equivalents</td>
</tr>
<tr>
<td>Net (decrease)/increase in cash and cash equivalents</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of the year</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of the year</td>
</tr>
</tbody>
</table>

For the Years Ended December 31,

<table>
<thead>
<tr>
<th>2018</th>
<th>2019</th>
<th>US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>RMB</td>
<td>RMB</td>
<td></td>
</tr>
<tr>
<td>(in thousands)</td>
<td>(in thousands)</td>
<td></td>
</tr>
</tbody>
</table>

To date, we have financed our operating and investing activities through cash generated by historical equity financing activities. As of December 31, 2018 and 2019, respectively, our cash and cash equivalents and term deposits were RMB434.8 million and RMB380.3 million (US$54.6 million). Our cash and cash equivalents primarily consist of cash on hand, cash at banks and term deposits, which have original maturities of three months or less and are readily convertible to known amounts of cash. Our term deposits have original maturities of more than 3 months but less than one year.
We entered into a convertible debt agreement to borrow a one-year loan of US$3.0 million with an investor in March 2017. The interest rate for the convertible debt is 5% simple interest per annum, payable at the maturity date. The convertible debt shall be convertible at the option of the investor during the period of loan into 116,640 Series C-2 redeemable convertible preferred shares. The maturity date of this convertible debt was extended to March 8, 2020 in March 2018. On November 20, 2019, we and the investor agreed to terminate the convertible debt agreement, pursuant to which the principal amount of USD3.0 million (equivalent to RMB20.0 million) will be paid in November 2019 and the accrued interest of RMB2.7 million will be paid by the end of the first quarter of 2020. As of the date of this prospectus, the principal amount and accrued interest have been paid in full. The difference in the settlement amount and the carrying amount was recognized as a RMB8.9 million (US$1.3 million) gain on extinguishment of a convertible debt for the year ended December 31, 2019.

We believe that our current cash and cash equivalents and term deposits will be sufficient to meet our anticipated working capital requirements and capital expenditures for the 12 months following this offering. After this offering, we may decide to enhance our liquidity position or increase our cash reserve for future investments through additional capital and finance funding.

As of December 31, 2019, 94.0% of our cash and cash equivalents were held in China, and 15.9% were denominated in Renminbi. Our term deposits are denominated in U.S. dollars and are deposited at financial institutions in China. Although we consolidate the results of our VIE and its subsidiaries, we only have access to the assets or earnings of our VIE and its subsidiaries through our contractual arrangements with our VIE and its shareholders. See “Corporate History and Structure—Contractual Arrangements with our Consolidated Affiliated Entity and Its Shareholders.”

In utilizing the proceeds we expect to receive from this offering, we may make additional capital contributions to our WFOE, establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries, make loans to our PRC subsidiaries, or acquire offshore entities with operations in China in offshore transactions. However, most of these uses are subject to PRC regulations. See “Risk Factors—Risks Related to Our Corporate Structure—PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the proceeds of this offering to make loans or additional capital contributions to our WFOE, which could materially and adversely affect our liquidity and our ability to fund and expand our business.”

A substantial amount of our future revenues are likely to be in Renminbi. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval as long as certain routine procedural requirements are fulfilled. Therefore, our WFOE is allowed to pay dividends in foreign currencies to us without prior SAFE approval by following certain routine procedural requirements. However, approval from or registration with competent government authorities is required where the Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future.

Operating activities

Net cash used in operating activities in 2019 was RMB31.6 million (US$4.5 million), as compared to net loss of RMB52.9 million (US$7.6 million) in the same period. The difference was primarily due to (i) an increase of RMB9.0 million (US$1.3 million) in accounts payable as a result of an increase in revenue-sharing costs payable, (ii) changes in fair value of financial instruments of RMB9.0 million (US$1.3 million), (iii) an increase of RMB8.8 million (US$1.3 million) in deferred revenue, mainly including cash received from paying users related to live streaming services and membership services, and (iv) a decrease of RMB7.7 million (US$1.1 million) in accounts receivable, mainly including cash due from advertising customers. This was partially offset by a gain on extinguishment of a convertible debt of RMB9.0 million (US$1.3 million), an increase in
prepayments and other current assets of RMB4.7 million (US$0.7 million), mainly attributable to the increase of receivable from third party payment platforms, and a decrease in amount due to a related party of RMB6.9 million (US$1.0 million).

Net cash used in operating activities in 2018 was RMB103.4 million, as compared to net loss of RMB144.6 million in the same period. The difference was primarily due to (i) an increase of RMB28.5 million in accrued expenses and other current liabilities, mainly including advertising and marketing fees payable and accrued payroll and welfare, (ii) an increase of RMB13.2 million in deferred revenue, mainly including cash received from paying users related to live streaming services and membership services, and (iii) an increase of RMB6.6 million in amount due to a related party. This was partially offset by an increase of RMB5.8 million in accounts receivable, and an increase of RMB4.9 million in prepayments and other assets.

**Investing activities**

Net cash provided by investing activities in 2019 was RMB285.6 million (US$41.0 million), primarily due to proceeds from maturity of term deposits of RMB373.5 million (US$53.6 million), partially offset by investment in term deposits of RMB82.0 million (US$11.8 million).

Net cash used in investing activities in 2018 was RMB113.2 million, primarily due to purchase of term deposits of RMB358.3 million, and cash paid for long-term investments of RMB20.6 million primarily to acquire 8.15% equity interest in Mengmei Life Pty. Ltd. to expand our family planning services offerings, partially offset by proceeds from maturity of term deposits of RMB269.2 million.

**Financing activities**

Net cash used in financing activities in 2019 was RMB22.3 million (US$3.2 million), primarily attributable to repayment of a convertible debt of RMB20.0 million (US$2.9 million) and payments for initial public offering costs of RMB2.3 million (US$0.3 million).

Net cash provided by financing activities in 2018 was RMB166.3 million, primarily attributable to proceeds from issuance of convertible preferred shares, partially offset by issuance cost.

**Capital expenditures**

Our capital expenditures are primarily incurred for purchases of office and electronic equipment, as well as leasehold improvements. Our capital expenditures were RMB3.5 million in 2018 and RMB5.9 million (US$0.8 million) in 2019. We intend to fund our future capital expenditures with our existing cash balance. We will continue to make capital expenditures to meet the expected growth of our business.

**Contractual obligations**

The following table sets forth our contractual obligations as of December 31, 2019:

<table>
<thead>
<tr>
<th>Payment due</th>
<th>Total</th>
<th>Less than 1 year</th>
<th>1-3 years</th>
<th>More than 3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating lease obligations(1)</td>
<td>12,391,895</td>
<td>7,634,065</td>
<td>4,757,830</td>
<td>—</td>
</tr>
</tbody>
</table>

Note:
(1) Operating lease obligations consist of the obligations under the lease agreements covering our offices facilities.

Other than as shown above, we did not have any significant capital and other commitments, long-term obligations or guarantees as of December 31, 2019.
Off-Balance Sheet Commitments and Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. In addition, we have not entered into any derivative contracts that are indexed to our shares and classified as shareholder’s equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or product development services with us.

Critical Accounting Policies

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements.

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make judgments, estimates and assumptions. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experiences and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from our expectations as a result of changes in our estimates. Some of our accounting policies require a higher degree of judgment than others in their application and require us to make significant accounting estimates.

The following descriptions of critical accounting policies, judgments and estimates should be read in conjunction with our consolidated financial statements and accompanying notes and other disclosures included in this prospectus. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies, (ii) the judgments and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions.

Revenue Recognition – Live Streaming Services

We operate an integrated platform, Blued, consisting of IT infrastructure, mobile applications and our proprietary algorithm, to offer live streaming services to individual viewers as our customers. We engage broadcasters to perform on our platform, which through our proprietary algorithm, helps individual viewers discover among the vast collection of contents on the platform the broadcasters and shows they may be interested in and optimize individual viewers live streaming experience and hence improve the efficiency of monetization.

We evaluate and determine individual viewers as our customers and we are the principal in providing live streaming services to them, and hence report live streaming revenues on a gross basis. Accordingly, the amounts billed to viewers are recorded as revenues and revenue sharing fee paid to broadcasters through talent agencies are recorded as cost of revenues. We control the integrated live streaming services, which is evidenced by our contractual relationship with individual viewers and primary responsibility for fulfilling the promise to provide the live streaming services, including operating the self-developed live streaming platform and maintaining the operation of the platform, engaging broadcasters through talent agencies to perform on our platform, investing in and using our algorithm to optimize individual viewers’ live streaming experience, enabling individual viewers to discover the broadcasters and shows they may be interested in, developing new features in the platform, promoting activities including the general promotion of the platform and the promotion of popular broadcasters and offering the virtual items to viewers to be purchased and used in the platform. Our control is also evidenced by our sole ability to monetize the live streaming services and the level of discretion in establishing pricing. We also have latitude in establishing the amount of compensation that broadcasters and talent agencies receive as a percentage of revenues generated from virtual gift sales. Such percentage is subject to the achievement of broadcasters and talent agencies on KPIs set by us.
Individual viewer can purchase virtual gifts on our platform, and simultaneously present to broadcasters during their live streaming performance to show their support for their favorite broadcasters. We have sole discretion in designing and establishing pricing of virtual gifts. Individual viewer purchases virtual gifts using our virtual currency which is in turn acquired through online third-party payment platforms. Virtual currency is non-refundable and does not have expiration date. It is often consumed soon after it is purchased.

We consider live streaming service as one performance obligation to our customers. The consideration received from individual viewers varies at viewers’ discretion, as they purchase and present variable quantity or value of virtual gifts to broadcasters during a performance. The recognition of such variable consideration is constrained until the amount is known, which is when an individual viewer purchases virtual gifts and simultaneously presents them to broadcasters during their live streaming performance. Accordingly, revenue is recognized when virtual gifts are consumed as they are presented to broadcasters. Unconsumed virtual currency is recorded as deferred revenue.

Share-based compensation

We periodically grant share-based awards, mainly including share options to eligible employees and directors, which are subject to service and performance conditions.

Share-based payment transactions with employees are measured at the grant-date fair value, and are recognized as compensation expense, net of estimated forfeitures, over the vesting period, and when we consider that it is probable that the performance condition will be achieved.

Share-based compensation in relation to the share options is estimated using the Binomial Option Pricing Model. The determination of the fair value of share options is affected by the share price of our ordinary shares as well as the assumptions regarding a number of complex and subjective variables, including the expected share price volatility, risk-free interest rate, exercise multiple, forfeiture rate and expected dividend yield.

Fair value of our ordinary shares

We are a private company with no quoted market prices for our ordinary shares. We therefore make estimates of the fair value of our ordinary shares on various dates for the following purposes:

- determining the fair value of our ordinary shares at the date of issuance of convertible preferred shares as one of the inputs into determining the intrinsic value of the beneficial conversion feature, if any; and
- determining the fair value of our ordinary shares at the date of the grant of a share-based compensation award to our employees as one of the inputs into determining the grant date fair value.
- determining the fair value of our preferred shares as one of the inputs into determining the redemption value of preferred shares at the period end or modification date.
- determining the fair value of our convertible debt as one of the inputs into determining the fair value in the entirety at the period end or extinguishment date.
Valuations of our ordinary shares were determined in accordance with the guidelines outlined in the American Institute of Certified Public Accountants’ Practice Aid, Valuation of Privately—Held Company Equity Securities Issued as Compensation, and with the assistance of an independent appraisal firm from time to time. The assumptions we use in the valuation model are based on future expectations combined with management judgment, with inputs of numerous objective and subjective factors, to determine the fair value of our ordinary shares, including the following factors:

- our operating and financial performance;
- current business conditions and projections;
- our stage of development;
- the prices, rights, preferences and privileges of our convertible preference shares relative to our ordinary shares;
- the likelihood of achieving a liquidity event for the ordinary shares underlying these share-based awards, such as an initial public offering;
- any adjustment necessary to recognize a lack of marketability for our ordinary shares; and
- the market performance of industry peers.

In order to determine the fair value of our ordinary shares underlying each share-based award, we first determined our equity value, and then allocated the equity value to each element of our capital structure (convertible debt, convertible preferred shares and ordinary shares) using a hybrid method comprising the probability-weighted expected return method and the option pricing method. In our case, three scenarios were assumed, namely: (i) the liquidation scenario, in which the option pricing method was adopted to allocate the value among convertible debt, convertible preferred shares and ordinary shares, and (ii) the redemption scenario, in which the option pricing method was adopted to allocate the value among convertible debt, convertible preferred shares and ordinary shares, and (iii) the mandatory conversion scenario, in which equity value was allocated to convertible debt, convertible preferred shares and ordinary shares on an as-if converted basis. Increasing probability was assigned to the mandatory conversion scenario in light of preparations for our initial public offering.

In determining the fair value of our ordinary shares, we applied the income approach/discounted cash flow, or DCF, analysis based on our projected cash flow using management’s best estimate as of the valuation date. The determination of the fair value of our ordinary shares requires complex and subjective judgments to be made regarding our projected financial and operating results, our unique business risks, the liquidity of our shares and our operating history and prospects at the time of valuation.
The major assumptions used in calculating the fair value of ordinary shares include:

The discount rates of 19.5%, 19.0%, 18.5%, 18.0%, 18.0%, 18.0% and 18.0%, were used for dates as of December 31, 2017, June 30, 2018, September 30, 2018, December 31, 2018, June 25, 2019, November 11, 2019, November 20, 2019 and December 31, 2019 respectively. The discount rates listed in the table above were based on the weighted average cost of capital, which was determined based on a consideration of the factors including risk-free rate, comparative industry risk, equity risk premium, company size and non-systemic risk factors.

In deriving the weighted average cost of capital used as the discount rates under the income approach, eight publicly traded companies were selected for reference as our guideline companies. The guideline companies were selected based on the following criteria: (i) the guideline companies should provide similar services, and (ii) the guideline companies should either have their principal operations in the Asia Pacific region, as we mainly operate in China, or are publicly listed companies in the United States, since as we plan to list our shares in the United States.

Discount for lack of marketability, or DLOM. DLOM was quantified by the Finnerty’s Average Strike put options mode. Under this option-pricing method, which assumed that the put option is struck at the average price of the stock before the privately held shares can be sold, the cost of the put option was considered as a basis to determine the DLOM. This option pricing method is one of the methods commonly used in estimating DLOM as it can take into consideration factors like timing of a liquidity event, such as an initial public offering, and estimated volatility of our shares. The farther the valuation date is from an expected liquidity event, the higher the put option value and thus the higher the implied DLOM. The lower DLOM is used for the valuation, the higher is the determined fair value of the ordinary shares. DLOM remained in the range of 20% to 7% in the period from 2017 to 2019.

Fair value of our ordinary shares increased from US$9.38 as of December 31, 2017, US$12.32 as of June 30, 2018, US$14.77 as of December 31, 2018, US$17.92 as of December 31, 2018, US$31.15 as of June 25, 2019, US$34.97 as of November 11, 2019, US$34.99 as of November 20, 2019 and US$37.10 as of December 31, 2019 primarily due to growth in our business. Our successful completion of Series D, Series D1 and Series D2 rounds of financing in 2017 and 2018 also contributed to the increase in the fair value of our ordinary shares as they provided us with the funding needed for our expansion.

Internal Control Over Financial Reporting

Prior to this offering, we have been a private company with limited accounting personnel and other resources with which we address our internal control over financial reporting. In connection with the audit of our consolidated financial statements included in this prospectus, we and our independent registered public accounting firm identified one material weakness in our internal control over financial reporting. As defined in the standards established by the U.S. Public Company Accounting Oversight Board, a “material weakness” is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness identified related to our lack of sufficient financial reporting and accounting personnel with appropriate knowledge of U.S. GAAP and SEC reporting requirements to properly address complex U.S. GAAP accounting issues and related disclosures in accordance with U.S. GAAP and financial reporting requirements set forth by the SEC.

To remedy our identified material weakness, we have adopted several measures to improve our internal control over financial reporting, including: (i) hired a financial reporting director who is AICPA-qualified and has extensive U.S. GAAP financial accounting and reporting experience at a big-four international accounting
firm and U.S. listed public companies based in China, and an internal control director with extensive experience on construction of enterprise’s internal
control systems, (ii) improving the capabilities of existing accounting and financial reporting personnel through continuous training and education in the
accounting and reporting requirements under U.S. GAAP, and SEC rules and regulations, and (iii) developing and implementing a full set of U.S. GAAP
accounting policies and related internal control policies, including implementing a comprehensive accounting manual to guide the day-to-day
accounting operation and reporting work.

The process of designing and implementing an effective financial reporting system is a continuous effort that requires us to anticipate and react to
changes in our business and the economic and regulatory environments and to expend significant resources to maintain a financial reporting system that
is adequate to satisfy our reporting obligation. See “Risk Factors—Risks Relating to Our Business and Industry—if we fail to implement and maintain
an effective system of internal controls over financial reporting, we may be unable to accurately report our results of operations or prevent fraud or fail
to meet our reporting obligations, and investor confidence and the market price of our ADSs may be materially and adversely affected.”

As a company with less than US$1.07 billion in revenue for our last fiscal year, we qualify as an “emerging growth company” pursuant to the
JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable
generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 of the Sarbanes-Oxley
Act of 2002, in the assessment of the emerging growth company’s internal control over financial reporting. The JOBS Act also provides that an
emerging growth company does not need to comply with any new or revised financial accounting standards until such date that a private company is
otherwise required to comply with such new or revised accounting standards. We have elected to take advantage of such exemptions.

Holding Company Structure

BlueCity Holdings Limited is a holding company with no material operations of its own. We conduct our operations primarily through our WFOE,
our VIE and its subsidiaries in China. As a result, BlueCity Holdings Limited’s ability to pay dividends depends upon dividends paid by our WFOE. If
our WFOE or any newly formed PRC subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their
ability to pay dividends to us. In addition, our wholly foreign-owned subsidiaries in China are permitted to pay dividends to us only out of its retained
earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our WFOE, our VIE and its
subsidaries in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve
funds reach 50% of their registered capital. In addition, our WFOE in China may allocate a portion of their after-tax profits based on PRC accounting
standards to a staff welfare and bonus fund at their discretion, and our VIE may allocate a portion of its after-tax profits based on PRC accounting
standards to a surplus fund at their discretion. The statutory reserve funds and the discretionary funds are not distributable as cash dividends. Remittance
of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by SAFE. Our WFOE has not paid
dividends and will not be able to pay dividends until they generate accumulated profits and meet the requirements for statutory reserve funds.

Inflation

To date, inflation in China has not materially affected our results of operations. According to the National Bureau of Statistics of China, the year-
over-year percent changes in the consumer price index for December 2017, 2018 and 2019 were increases of 1.9%, 1.8% and 4.5%, respectively.
Although we have not been materially affected by inflation in the past, we may be affected if China experiences higher rates of inflation in the future.
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Quantitative and Qualitative Disclosures about Market Risk

Foreign exchange risk

Substantially all of our revenues and expenses are denominated in RMB. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge exposure to such risk. Although our exposure to foreign exchange risks should be limited in general, the value of your investment in our ADSs will be affected by the exchange rate between U.S. dollar and Renminbi because the value of our business is effectively denominated in RMB, while our ADSs will be traded in U.S. dollars.

The value of Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions and the foreign exchange policy adopted by the PRC government. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Following the removal of the U.S. dollar peg, the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. On August 11, 2018, the People’s Bank of China announced plans to improve the central parity rate of the Renminbi against the U.S. dollar by authorizing market-makers to provide parity to the China Foreign Exchange Trading Center operated by the People’s Bank of China with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign currencies as well as changes in exchange rates of major international currencies. Effective from October 1, 2018, the International Monetary Fund added Renminbi to its Special Drawing Rights currency basket. Such change and additional future changes may increase volatility in the trading value of the Renminbi against foreign currencies. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. Accordingly, it is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and the U.S. dollar in the future. The Renminbi has recently depreciated significantly against the backdrop of a surging U.S. dollar and persistent capital outflows of China, and we cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. Although our exposure to foreign exchange risks should be limited in general, the value of your investment in our ADSs will be affected by the exchange rate between U.S. dollar and Renminbi because the value of our business is effectively denominated in RMB, while our ADSs will be traded in U.S. dollars.

To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of Renminbi against the U.S. dollar would reduce the Renminbi amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs, servicing our outstanding debt, or for other business purposes, appreciation of the U.S. dollar against the Renminbi would reduce the U.S. dollar amounts available to us.

As of December 31, 2019, we had Renminbi-denominated cash and cash equivalents of RMB47.3 million. A 10% depreciation of Renminbi against the U.S. dollar based on the foreign exchange rate on December 31, 2019 would result in a decrease of US$0.6 million in cash and cash equivalents. A 10% appreciation of Renminbi against the U.S. dollar based on the foreign exchange rate on December 31, 2019 would result in an increase of US$0.8 million in cash and cash equivalents.

Interest rate risk

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash, which is mostly held in interest-bearing bank deposits and wealth management products. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed to material risks due to changes in interest rates, and we have not used any derivative financial instruments to manage our interest risk exposure.

After completion of this offering, we may invest the net proceeds we receive from the offering in interest-earning instruments. Investments in both fixed rate and floating rate interest earning instruments carry a degree
of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall.

Recently Issued Accounting Pronouncements

A list of recently issued accounting pronouncements that are relevant to us is included in note 2 to our consolidated financial statements included elsewhere in this prospectus.
Overview of Global LGBTQ Market

For the purpose of this prospectus, the LGBTQ population refers to the population who identify themselves as part of the LGBTQ community. In 2018, the global LGBTQ population was approximately 450 million, and is expected to grow to 591 million by 2023, representing 7.4% of the total population, compared to 5.9% of the total population in 2018, according to the Frost & Sullivan Report. LGBTQ populations in Asia and North America together represented over 70% of the total population in 2014 and 2018, and are expected to represent over 75% of the total population in 2023.

The growth of the LGBTQ population in absolute numbers and as a percentage of the general population is due to the increasing social acceptance of the LGBTQ population and more openness and willingness of the younger generation to identify themselves as LGBTQ. Over the past decades, society has become increasingly inclusive and friendly to the LGBTQ community. For example, the number of countries where same-sex marriage is legal has increased from one in 2001 to seven in 2009 and to 27 as of August 2019, whereas 162 countries and regions legalized same-sex relationships. The younger generations today tend to more openly embrace their identity than older generations or the same younger generations from earlier periods. According to the Frost & Sullivan Report, in 2018, the age groups of 18 to 24 and 25 to 34 are believed to have the highest percentages of LGBTQ population representation of 8.9% and 8.0% respectively.

According to the Frost and Sullivan Report, the LGBTQ population in general has higher average disposable income than that of the general population. The LGBTQ population also tends to spend more across various categories, such as healthcare, recreation, clothing and footwear, dining out and food delivery, compared to the general population.

The increasing number of the LGBTQ population, a higher average disposable income of the LGBTQ population and a higher willingness of the LGBTQ population to spend across various categories have all contributed to the rapid growth of the LGBTQ market. The LGBTQ market is the sum of all consumer expenditures by the LGBTQ population and marketing expenditures towards the LGBTQ population, as defined by the Frost & Sullivan Report. Also as defined by the Frost & Sullivan Report, online LGBTQ market represents the sum of online consumer expenditures by the LGBTQ population and online marketing expenditures towards the LGBTQ population. Driven by (i) increasing adoption of mobile internet, which enables more mass users to access various online products and services, and (ii) development of technology such as location-based services, artificial intelligence, mobile payment, video streaming and cloud infrastructure, which allows customers to enjoy more comprehensive product and service offerings with higher quality, the online LGBTQ market has also grown rapidly.

The market size of the global LGBTQ market was US$3,860.3 billion in 2018 by consumption expenditure and marketing expenditure, and is expected to reach US$5,425.9 billion by 2023, representing a CAGR of 7.0%. The market size of the global online LGBTQ market was US$261.5 billion in 2018, and is expected to reach US$580.4 billion by 2023, representing a CAGR of 17.3%. Within the online LGBTQ market, eCommerce is the largest segment, representing over 70% of the total market size in 2018. Online travel agency, or OTA, online advertisements and pan entertainment are also important sub-segments of the online LGBTQ market, with pan entertainment expected to grow at a faster 2018-2023 CAGR than the other two segments.
Overview of Key Offerings of LGBTQ Platforms

LGBTQ platforms provide products and services to the LGBTQ community including social and entertainment, online health consulting and online pharmacy, and assisted reproductive technology services. According to the Frost & Sullivan Report, as the LGBTQ platforms are still at their early stage of development with majority of the platforms only providing social networking functions, the LGBTQ platforms have much lower usage penetration amongst the LGBTQ people as compared to social and entertainment platforms targeting the general population. The leading LGBTQ platforms are well positioned to address users’ evolving needs throughout their lifetime and capture the significant growth potential of the online LGBTQ market and LGBTQ platforms as these platforms continue to broaden their service offerings and the penetration rate of these platforms continues to increase. Leveraging the large and sticky user base as well as their deep understanding of the LGBTQ community, leading LGBTQ platforms are well positioned to identify the various needs of the LGBTQ community, tailor their products’ features and functionalities accordingly, and broaden their service offerings to accommodate these needs.

LGBTQ Online Social and Entertainment

Online social and entertainment mainly consists of social networking and live-streaming. Key functions of social networking apps include location-based matching, photo and video sharing, instant messaging, voice and video call and status update. These functions enable users to build social connections with other members of the LGBTQ community who share similar interests and backgrounds. Live-streaming apps enable users to watch live entertainment performances by broadcasters or engage and socialize with broadcasters. The LGBTQ live streaming market is still at its early stage of development and therefore has significant room to grow. LGBTQ platforms offering both social networking and live streaming services are better positioned to refer users from the social networking segment to live streaming segment, potentially lowering customer acquisition cost and increasing overall ARPPU.

According to the Frost & Sullivan Report, the LGBTQ online social and entertainment market had a total global revenue of US$2.7 billion in 2018, consisting of revenues from membership fees, advertising revenue and live streaming, and is expected to reach US$6.2 billion in 2023, representing a CAGR of 18.3%. The LGBTQ online social networking market had a total global revenues of US$2.1 billion in 2018, consisting of revenues from membership fees and advertising revenue, and is expected to reach US$3.8 billion in 2023, representing a CAGR of 12.5%. Within the global LGBTQ online social networking market, the total revenues generated in Asia were US$975.1 million in 2018, representing a CAGR of 26.6% since 2014, and is expected to grow to US$2.1 billion in 2023, representing a CAGR of 16.8%. The LGBTQ live streaming market had a total global revenue of US$557.8 million in 2018, consisting of revenues representing a CAGR of 84.7% since 2014 and is expected to reach US$2.4 billion in 2023, representing a CAGR of 34.0%. Within the global LGBTQ online live streaming market, the total revenues generated in Asia contributed 80.4% of the global revenues in 2018. The
rapid growth of the LGBTQ online social and entertainment market since 2014 is powered by the growing social needs of the LGBTQ community, more tailored LGBTQ-focused live streaming contents, users’ stronger willingness to pay for quality entertainment contents on the back of consumption upgrade trends, and increasing social acceptance of the LGBTQ community, according to the Frost & Sullivan Report.

![LGBTQ online social and entertainment market (US$ million)](image)

Source: Frost & Sullivan Report

**Online Health Consulting and Online Pharmacy**

For users with health issues, online health consulting and online pharmacy services provide a compelling alternative to traditional hospitals and clinics as they provide users with an enhanced level of privacy. China represents the primary and most relevant market for online health and online pharmacy given its advanced development, according to the Frost & Sullivan Report.

With the increasing penetration rate and growing awareness around health condition of the younger generations as well as growing spending power by the middle-class, the market size of China’s online health consulting and online pharmacy market has grown rapidly over the past few years. According to the Frost & Sullivan Report, China’s online health consulting and online pharmacy market was US$1.2 billion in 2018, representing a CAGR of 39.3% since 2014 and is expected to reach US$3.6 billion by 2023, representing a CAGR of 25.3%.

![China online health consulting and online pharmacy market (US$ million)](image)

Source: Frost & Sullivan Report

**ART and ART Consulting Services**

According to the Frost and Sullivan Report, ART includes artificial insemination, in vitro fertilization (IVF) and other related services. The LGBTQ population, compared to the general population, has stronger needs for ART and related services when considering family planning, according to the same report.

According to the Frost and Sullivan Report, the global ART market was US$24.8 billion in 2018, representing a CAGR of 5.1% since 2014 and is expected to reach US$31.7 billion by 2023, representing a
CAGR of 5.0%. The global ART consulting services market was US$167.4 million in 2018, representing a CAGR of 20.4% since 2014 and is expected to reach US$417.6 million in 2023, representing a CAGR of 20.1% according to the same report. In 2018, 32.3% of the global ART consulting services market is contributed by Chinese customers seeking overseas ART services. This is expected to reach 41.6% by 2023, according to the Frost & Sullivan Report. The growing infertility rate, rising awareness of birth defects, development in technology related to ART and increasing affordability for the services have contributed to the growth of ART and ART consulting services market in the past few years.

Source: Frost & Sullivan Report
LETTER TO INVESTORS

“Gay”—as I typed the word on my computer around 20 years ago, hiding alone in my bedroom, my path ahead was destined to be different.

From one to 44 million

I was laden with agonizing loneliness, helplessness, and fear of the future during my adolescence. I used to think that I was the only person in the world attracted to people of the same gender and that I was sick and needed treatment. That was why, when I found out on the internet that there were other people like me, and that homosexuality was not an illness or disorder, I felt a tremendous sense of relief and excitement. After all, I’m not alone in this world. After all, we are not sick. After all, love is gender blind.

To me, herein lies the power of the internet—it empowers us to elevate ourselves, and to bring warmth to others across all corners of the world living in loneliness, helplessness and fear because of their sexual orientation.

This was how I found my calling to leverage the power of the internet to serve the LGBTQ community. Starting from developing a personal website, I endured continuous and painstaking exploration, experimentation, changes and breakthroughs. When faced with adversity, I reminded myself not to give up, and that the path I chose requires me to be exceptionally strong in mind and willpower. Finally, my dream became a shared vision of our over 400 team members, ushering us to build a leading LGBTQ community in the world with over 44 million registered users spread across over 200 countries and regions around the globe.

We make the world a better place

We are more than just a social network or a live streaming platform. Social interaction, an innate human need, is our point of entry to serve the LGBTQ population. However, we do not stop there; we are excited to leverage this platform to establish connections among people, content and services. We offer our users a safe and secure oasis to satisfy their needs for social networking, information sharing, entertainment, health and wellness, and parenthood that have not been fully addressed by the general commercial environment of the wider society.

We provide our users with full-lifecycle services. We firmly believe that everyone is equally entitled to high-quality, tailored, friendly and discrimination-free commercial services.

We are also more than just a commercial enterprise. Our commercial operation is the gateway through which we engage with the world and a gentle force that propels social progress by eliminating discrimination. We aspire to tell the world our stories—this is an organization dedicated to the LGBTQ community built hand-in-hand by both heterosexual and LGBTQ members, with users across the world of different skin colors and ethnicities who live around us with the same love, sense of equality and yearning for a better life. They might be your colleagues, your friends or your family members.

When people recognize our existence, they recognize the existence of the LGBTQ population. When they witness our dedication and hard work, they will also embrace the positive, sanguine and uplifting community behind us.

We look forward to you standing by us

Our listing is an important milestone in our long journey. Being a public company will encourage us to continue expanding our brand globally, improving our corporate governance and optimizing our products and services for the LGBTQ community.

We embrace those who stand by us and help us grow and develop further. Together we will turn BlueCity into a beautiful rainbow over the capital markets!

Baoli Ma (alias, Geng Le)
Founder and Chief Executive Officer
BlueCity Holdings Limited
BUSINESS

The BlueCity Story: From One to 44 million

One Person

Our story started in the year of 2000, when our founder, Mr. Baoli Ma, a closeted policeman by the alias “Geng Le,” founded one of China’s first and most influential LGBTQ online forums, Danlan.org. Danlan.org is the predecessor of BlueCity, and Mr. Ma is our number one employee.

Homosexuality was removed from an official list of mental illness in China the next year.

Six Years

After secretly moderating Danlan.org every night for six years by himself, Mr. Ma was joined by a few devoted volunteers in 2006, and they put their hearts and souls into promoting social awareness and connectivity among the LGBTQ population.

For the many years that followed, Danlan.org carried on its public interest gene and made relentless efforts in promoting HIV awareness and prevention.

34 Employees

Resigned from his policeman position in 2011, Mr. Ma was determined to fully devote himself to social awareness activities for the LGBTQ population. BlueCity was officially founded in the same year with the launch of our mobile app Blued the year after, in 2012.

BlueCity started out with 34 employees and grew exponentially into a market leader in the increasingly active LGBTQ community and the associated “pink economy.”

44 Million Registered Users

From a one-man operation that started 19 years ago, BlueCity has evolved into a global gateway for the “coming out journey” of the LGBTQ population, encouraging them to be themselves, feel good about themselves, and embrace the community. We celebrate a registered user base of over 44 million on our Blued mobile app as of December 31, 2019. Blued’s average MAUs grew from 4.1 million in the three months ended March 31, 2018 to 5.9 million in the three months ended December 31, 2019.

Don’t blink. The best is yet to come.

A Snapshot of BlueCity Today

We have a large and active user base which primarily consists of LGBTQ persons in China and the rest of Asia, and we provide a full suite of services empowering LGBTQ persons in all aspects of their daily lives and addressing their pain points. As a central hub of BlueCity’s services and platforms, the Blued mobile app allows our users to connect with each other, express themselves, and access professional health related services and family planning services at their fingertips. With a long history of serving the LGBTQ community, we have an unparalleled understanding of their needs and concerns, and have developed service offerings specifically tailored to meet their lifetime needs:

• Self-Identity and Sense of Belonging

BlueCity is a spiritual home for LGBTQ people, encouraging them to be themselves, feel good about themselves and embrace the community. This unique position strengthens our user engagement and stickiness.

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This develops a self-reinforcing virtuous cycle and helps our community grow stronger over time. According to the Frost & Sullivan Report, Blued was the first point of contact with the LGBTQ community for the majority of our users. In 2019, Blued had an average daily time spent per active user of over 60 minutes and average daily sessions per active user of over 16 times, according to the Frost & Sullivan Report. Blued had an average next-month retention rate of 71.0% in 2019.

- **Social Connection and Interaction**
  
  Through Blued we empower our users in their social life via a variety of location-based and content-based social networking services which facilitate dynamic and engaging interactions among members of our community. Our location-based social networking services cater to the diverse social needs of our users and enable them to conveniently connect with each other and expand relationships from online to offline. Our content-based social networking services seamlessly immerse our users into our large and robust global community and enable them to discover content that is interesting and relevant to them. We also provide a variety of membership services, including subscription-based membership services and pay-per-use functions, to further enhance their social networking experience.

- **Entertainment and Expression**
  
  Our platform is a safe and secure oasis for our users to express themselves in a positive, sanguine and uplifting community. Aside from content generated by users in their daily social activities, Blued enables users to live stream a wide variety of content and activities including talent shows, matchmaking shows, game shows, storytelling shows, comedy shows and casual chats between broadcasters and viewers. We have a talented and loyal broadcasters pool and share revenues generated from virtual gift sales with broadcasters through their agencies. We are committed to supporting our broadcasters and attracting new broadcasters to ensure a sustainable supply of high-quality streaming content on our platform.

- **Health and Wellness**
  
  Through our health platform He Health, we provide a wide variety of health-related services, primarily including HIV-related services and comprehensive men’s health services. We provide easy access to timely and professional HIV screening and prevention solutions and men’s health solutions, which include a wide variety of test-kits, medication and medical consulting services to be ordered at their fingertips. He Health is currently only available in China.

- **Pursuit of Parenthood**
  
  The pursuit of parenthood is a fundamental need and life goal of many members of our community. We offer family planning services through our Bluedbaby platform to Chinese customers, hand-holding them throughout the journey in cooperation with our assisted ART services partners outside of China. Blued is a world’s leading LGBTQ platform in terms of average MAUs in 2019, according to the Frost & Sullivan Report. We are the dominant leader in China. In 2019, we had average MAUs and average DAUs over six and nearly seven times that of the next largest player in China, respectively, according to the Frost & Sullivan Report. Blued’s average MAUs grew from 4.1 million in the three months ended March 31, 2018 to 5.9 million in the three months ended December 31, 2019. Leveraging our experience in China, we have successfully expanded into a number of overseas market and established a strong global presence. We are the largest online LGBTQ community in India, Korea, Thailand and Vietnam in terms of average MAUs in 2019, according to the Frost & Sullivan Report. We are rapidly expanding into new markets, and have users spanning over 200 countries and regions as of December 31, 2019. Users in countries and regions outside of China represented over 40% of our total MAUs in December 2019. Despite our global footprint, approximately 3.4% and 6.6% of our total revenues for 2018 and 2019, respectively, were contributed by users outside China. We are still in the
early stage of generating revenue from our users outside China and are continuing to introduce diversified service offerings to cater to their different needs. Currently, Blued is primarily used by homosexual men, while all of our services are available to the LGBTQ population in general.

Leveraging our deep understanding of and broad connections with the LGBTQ community accumulated throughout the years since Danlan.org, we continuously conduct a wide variety of public interest initiatives related to the LGBTQ community primarily through Danlan Public Interest, BlueCity’s public interest arm. Empowered by our platform’s technologies and data traffic and our deep understanding of the LGBTQ community, we believe we were the first in China to introduce the concept of “Internet + HIV prevention” to integrate online and offline HIV prevention efforts in HIV testing, prevention education, academic research and volunteering. We are also committed to continuously promoting diversity and LGBTQ awareness around the world by organizing and participating in a wide variety of social events. For more information on our public interest initiatives, see “—Corporate Social Responsibility—Danlan Public Interest.”

Our Strengths
World’s leading LGBTQ community

As the gateway to the BlueCity’s services and platforms, Blued is a world’s leading LGBTQ platform in terms of average MAUs in 2019, according to the Frost & Sullivan Report. Through Blued we provide users with access to BlueCity’s diverse services that cater to their lifetime needs, including social networking, entertainment, health-related and family planning services. Blued’s average MAUs grew from 4.1 million in the three months ended March 31, 2018 to 5.9 million in the three months ended December 31, 2019.

Our founder and CEO, Mr. Baoli Ma, has dedicated himself to serving the LGBTQ community throughout his career. He established BlueCity and subsequently launched Blued in 2012. Since then, we have been relentlessly promoting the healthy growth and development of our community and achieved considerable success through our services tailored for this community. We are the dominant leader in China. In 2019, we had average MAUs and average DAUs over six and nearly seven times that of the next largest player in China, respectively, according to the Frost & Sullivan Report.
We have successfully replicated our business model in China to other markets. We are the largest online LGBTQ community in India, Korea, Thailand and Vietnam in terms of average MAUs in 2019, according to the Frost & Sullivan Report. We are rapidly expanding into new markets, and have users spanning over 200 countries and regions as of December 31, 2019. Users from countries and regions outside of China represented over 40% of our total MAUs in December 2019.

**Strong user engagement and stickiness driven by sense of belonging**

Through our deep understanding of the LGBTQ community, we provide a wide range of targeted and tailored features and services, including social networking, entertainment and expression, health-related and family planning services, to meet the day-to-day and lifetime needs of our users. Through our emphasis on user experience, privacy protection and well-being and health, we have captured the hearts and minds of our users. We have cultivated a highly-trusted brand and nurtured a close-knit community and users have a strong sense of belonging towards our community. This strengthens our user engagement and stickiness, which gives us a resilient foundation on which we can refine our offerings, creating a virtuous flywheel.

Our business model is a self-reinforcing flywheel, which is set in motion by our focus on providing the best possible user experience. This drives organic user growth, which generates more data on our users, thus providing valuable feedback to further improve our user experience. Based on this feedback, we also incubate and develop new offerings, which broaden and deepen user engagement, further improving user experience.

In 2019, **Blued** had an average daily time spent per active user of over 60 minutes and average daily sessions per active user of over 16 times, according to the Frost & Sullivan Report. **Blued** had an average next-month retention rate of 71.0% in 2019.

**Proven capability to provide community-centric services**

The engagement and stickiness of our close-knit community enable us to identify users’ evolving needs early on, based on which we continuously grow existing and develop new businesses to capture emerging monetization opportunities.

**Live Streaming Services**

Live streaming is currently our main monetization channel. We provide an open platform for broadcasters to reach a large targeted audience. We developed and operate live streaming to provide an intuitive format for users to engage and socialize, and continually launch innovative and interactive formats, such as one-on-one battle and multi-broadcaster sessions, to facilitate community-driven user stickiness and sustained willingness to pay. We generated ARPPU for live streaming services of approximately RMB1,279 and RMB2,059 in 2018 and 2019, respectively. Following the success of our live streaming services, we launched multiple new businesses, which have shown considerable early success with significant monetization upside.

**Social Networking Services**

We empower our users in their social lives via a variety of location-based and content-based social networking services. Our mobile app **Blued** caters to the diverse social needs of our users and enables them to conveniently connect with each other and expand relationships from online to offline. Our AI-driven content-based social services seamlessly immerse our users into our large and robust global community and discover content that is interesting and relevant to them. In June 2018, we began offering our users a variety of membership services to further enhance their social networking experience, including subscription-based membership services and pay-per-use services. We are continuously testing and customizing the subscription options to balance revenue generation and user engagement.
Health-related services

We launched He Health in 2019 to provide the LGBTQ community with tailored health-related services, leveraging our platform’s innovative technologies to synergize with traditional distribution channels. We provide easy access to a wide variety of HIV-related medication and consulting services, drugs and nutritional supplements related to men’s health, in cooperation with our high-quality vendors and partner medical practitioners. Total transaction value facilitated by He Health increased more than 185% from April 2019 to December 2019.

Family Planning Services

We launched Bluedbaby in 2017 to provide users with personalized assisted reproduction consultation services, making the pursuit of parenthood a smoother journey for them. We only cooperate with ART services partners that we believe are of high caliber in terms of experience, technology, facility, reputation and service quality.

Stringent privacy and security standards

We highly value the privacy of our users. We continuously strengthen our internal guidelines, procedures and technologies to enhance users’ data privacy and ensure content compliance on our platform, to maintain a safe and healthy online environment.

We offer a wide range of tailored and customizable functions, including, data desensitization, location blurring and data encryption to ensure our users’ data, privacy and safety are protected. Specifically, we adhere to various requirements imposed by various governmental authorities on the safety of servers, network, frameworks, applications and data. We take localized measures to make sure our business operations are in compliance with user privacy policies and regulations in each jurisdiction.

We utilize deep learning to train our algorithms for image recognition, natural language processing (NLP) and sensitive keywords detection, supplemented with manual verification, to rigorously screen content. In addition to employing AI technologies to assist in detecting and prohibiting misusage, we also built multiple reporting channels to uncover and review invasive or illegal uses or content on our platform, such as verbal abuse, discriminatory remarks, fraud and drug-usage. We strictly comply with local laws and take prompt actions in response to non-compliant activities to protect our healthy and positive communal environment and stay compliant.

We believe our efforts ensure the sustainable growth of BlueCity and protect our brand image to provide a safe and healthy online space for our users.

Culture of commitment to corporate social responsibility

We view corporate social responsibility as an important aspect of our culture. We are dedicated to promoting diversity and social recognition of minorities in the broader community, and fostering a positive image for the LGBTQ community.

We are dedicated to tackling social and health issues related to the LGBTQ community. We believe we were the first in China to introduce the concept of “Internet + HIV prevention.” In cooperation with our community partners throughout China, we have amassed a network containing nearly 7,000 testing locations and established 18 express testing centers. From 2017 to 2019, we facilitated over 23,000 free HIV tests in Beijing alone. We have organized and trained more than 300 volunteers who have worked on HIV prevention initiatives since 2012, with an aggregate of over 30,000 dedicated volunteer hours. In addition, we have worked with a wide range of governmental, academia and corporate partners, such as Gilead Sciences, Inc. and Glaxosmithkline.
(China) Investment Co., Ltd., to conduct HIV-related research and studies. Since 2018, we have participated in 16 studies and co-published 8 research papers on renowned academic journals. Furthermore, in cooperation with major NGOs and governmental entities related to public health in China and globally, we have regularly organized and sponsored social events to fulfill our corporate social responsibilities and promote HIV prevention and advocate for LGBTQ equality.

We are widely regarded as a pioneer and leader in promoting social awareness and have received numerous awards, including 2019 Innovative Charity Project by Southern Weekly China CSR Annual Forum. We have been widely recognized in the media such as Forbes and China Central Television (CCTV) and by public figures, including government leaders, for our contributions to the LGBTQ community.

Proprietary and tailored technology infrastructure

We have invested significant resources to develop proprietary technologies in fields of data analytics and artificial intelligence to enhance user experience and ensure the sustainable growth of our platform. As of December 31, 2019, we had 134 employees primarily engaged in technology and development, representing approximately 27% of our total employees.

To provide the best possible user experience, we conduct big data analysis and utilize AI and image recognition technologies to generate profiles of our user base, while strictly adhering to legal requirements related to user privacy protection. This enables us to recommend more personalized content, build more precise social connections among our users and promote more useful business information and services to enhance user experience.

We have a highly-scalable, cloud-based technology infrastructure to ensure the sustainable growth of our platform, efficient localization and appropriate data safeguards.

Visionary founder leading an experienced management team

Our founder and chief executive officer, Mr. Baoli Ma, is an experienced entrepreneur with a personal mission to promote social equality for and wellbeing of the LGBTQ community. In 2000, he founded “Danlan.org,” one of the most influential LGBTQ platforms in China. He founded BlueCity in 2011. In the next year, he was invited to meet with the then Vice Premier of the PRC as a representative of a non-governmental organization focused on HIV prevention. Mr. Ma’s achievements have been widely recognized by numerous awards. He was awarded the Boldness in Business Awards from Financial Times in 2016 and selected as one of the “Top Global Thinkers” by the U.S. magazine Foreign Policy in 2017.

Our chief financial officer, Mr. Zhiyong (Ben) Li, has 14 years of experience in capital markets and financial accounting. Prior to joining BlueCity, Mr. Li served as the Vice President of Finance at GDS Holdings Ltd. (Nasdaq: GDS) and worked across various financial functions for 12 years. Our chief technology officer, Mr. Yuanchen (Calvin) Liu, is one of BlueCity’s earliest employees and has 15 years of experience in renowned technology companies, including Sina Corporation (Nasdaq: SINA) and Baidu, Inc. (Nasdaq: BIDU). Other members of our senior management team have an average of more than nine years of experience in their respective fields of expertise.

Our Strategies

Solidify our leading position in existing markets

We intend to strengthen our leading position in the markets where we currently operate. We aim to continuously acquire users while improving marketing efficiency by launching targeted campaigns, building our brand image, boosting conversion rates and increasing user retention.
We will also aim to further improve products and services and user experience, accumulate insights on evolving user needs and optimize content and social recommendations. We will regularly launch innovative features and functionalities to enhance user experience and sustain user stickiness. For example, we plan to increase the amount of user-generated content on our platform, and establish social groups for users sharing similar interests, among others. Leveraging such strategies, we will continue to re-engage inactive users and acquire new users.

We will further expand into lower-tier cities and towns in our existing markets, many of which have large LGBTQ populations yet limited social product offerings with significant growth potential. We believe that our value proposition is particularly attractive in these markets as a predominant means of social interaction between LGBTQ persons.

In addition, we believe that our positive and healthy brand image will help us gain trust from our users, which will further enhance their engagement with our platform. We plan to further grow our brand and deepen our social responsibility endeavors through participating, organizing or sponsoring LGBTQ health-related academic research, and promote community initiatives related to HIV prevention and treatment education.

**Expand into new geographies**

We intend to grow our user base in new geographies that have large LGBTQ populations and strong demand for LGBTQ related services. Because our current users have similar social, entertainment and health-related interests across regions, we can leverage our branding, product expertise and user insights to help us scale globally. Our strong presence in India, Korea, Thailand and Vietnam has demonstrated our ability to rapidly and successfully expand into overseas geographies and achieve meaningful scale. In certain markets with differentiated user behaviors and product preferences, we intend to launch new mobile apps under new brands.

**Broaden product offerings to serve other sub-groups of the LGBTQ population**

We plan to build a portfolio of brands to reach a broader range of users, including those from other sub-groups of the LGBTQ community, such as homosexual women. We believe a broader product portfolio with customized features and services will enable us to further scale our user base beyond homosexual men and drive further monetization.

Leveraging our existing expertise and success in serving the gay community, we are well-positioned to identify the needs of different sub-groups of the LGBTQ population. As other sub-groups of the LGBTQ population have specific social, relationship, entertainment and health-related needs, we endeavor to tailor our products’ features and functionalities accordingly, and broaden our service offerings to accommodate these needs.

**Enhance monetization capabilities and further diversify our service offerings**

We seek to strengthen our capability to generate revenue from live streaming by optimizing matching of broadcasters and viewers and adopting additional creative ways of virtual gifting. We also plan to curate more premium content and attract more high-quality influencers to our platform, in order to increase viewers’ willingness to pay. We also plan to strategically improve our margin for live streaming business over time.

Furthermore, we plan to deepen our efforts in increasing the number of membership services users and optimizing pricing strategies, and further test this offering in selected overseas markets with localized functionalities and features.

We also plan to further diversify our monetization channels. Our users are an attractive group of targets to advertisers and we will continue to explore additional advertising formats such as branded content, native in-feed ads and influencer marketing whilst ensuring optimal user experience. Furthermore, we may expand our family planning and health-related services into overseas markets in the future.
We believe that physical and mental well-being and the ability to pursue a holistic lifestyle are keys to the happiness of our users. We intend to explore and offer comprehensive lifestyle-related services that cater to the needs of our users in different stages of their life.

**Explore strategic investment and acquisition opportunities**

In light of evolving technologies, changing user needs and dynamic competitive landscape globally, we consider strategic investments and acquisitions to be an essential part in expanding our geographical coverage and broadening our product and service offerings.

We plan to leverage our leading position and extensive experience in the LGBTQ community to selectively pursue strategic alliances, investments, and acquisitions to complement our current business or expand our reach. We may consider acquiring or partnering with other leading LGBTQ platforms to enter into new regions, serve other sub-groups of the LGBTQ population, and consolidate the industry in order to enhance our leadership position.

**Continue to strengthen our technological capabilities**

Our technologies are important to our growth, user engagement, monetization capabilities and data security. We will continue to invest in and develop our artificial intelligence technologies, including image recognition, natural language processing, and big data analytics, whilst staying cognizant of how these technologies are regulated and applied in different markets.

We strive to improve our customized recommendations and user profiling capabilities, by optimizing algorithms on the increasing amount of data we amass, which we believe will further enhance user engagement. We will continue to leverage various techniques designed for content monitoring and filtering to ensure our platform adheres to various local laws and regulations. We intend to make additional investments in our infrastructure and attract, train, and retain the talents needed to support our growth globally.

**Strengthen our talent base**

We will continue to strengthen our talent base for our technology and development, operations, product development, commercialization and marketing functions. In line with our expansion footsteps, we aim to hire talents with relevant operational experience and expertise, local cultural awareness and acute insights of users into the various sub-groups of the LGBTQ community. We aim to build a team of diverse cultures, expertise and backgrounds who share our passion and values. We also will provide our talents with the opportunity to continuously develop their professional skillsets.

**Continue to make positive social impact in China and globally**

We are committed to promoting diversity, alleviate stigmatization and resist discrimination. We plan to continue to work with various local and international organizations to advocate for the wellbeing and social recognition of the LGBTQ population. In addition, we recognize the importance of sexual health education for the LGBTQ community and have been a pioneer of promoting awareness of HIV prevention in the markets we serve. We may expand our collaboration to government agencies in other countries in order to amplify our influence globally. We also plan to leverage our knowledge and network to provide education resources, advance HIV-related research and extend HIV testing to other countries and regions with limited health infrastructure. We will remain committed to supporting LGBTQ related public interest initiatives as our footprint continues to expand globally.
Our Business

Our Community

We have a large and active user base which consists of LGBTQ persons primarily in China and the rest of Asia. Currently, Blued is primarily used by homosexual men, while all services are available to the LGBTQ population in general. We mainly grow our user base organically and foster a healthy and uplifting community culture to allow the LGBTQ population to know themselves, be themselves, and celebrate their lives. Blued’s average MAUs grew from 4.1 million in the three months ended March 31, 2018 to 5.9 million in the three months ended December 31, 2019.

Our high-quality services and in-depth understanding of the LGBTQ community have enabled us to rapidly expand our global community. We are the largest online LGBTQ community in India, Korea, Thailand and Vietnam in terms of average MAUs in 2019, according to the Frost & Sullivan Report. We are rapidly expanding into new markets, and have users spanning over 200 countries and regions as of December 31, 2019. Countries and regions outside of China represented over 40% of our total MAUs in December 2019.

In 2019, Blued had an average daily time spent per active user of over 60 minutes and average daily sessions per active user of over 16 times, according to the Frost & Sullivan Report. Blued had an average next month retention rate of 71.0% in 2019.

A Journey with BlueCity

We operate a leading global LGBTQ platform that is deeply rooted in China’s LGBTQ community. As a central hub of BlueCity’s services and platforms, the Blued mobile app allows our users to connect with each other through our social networking services, express themselves through our live streaming services, access professional health related services through He Health and family planning services through Bluedbaby at their fingertips. Through Blued, Danlan Public Interest also conducts a variety of public interest activities for our community, including online HIV test booking and HIV prevention education.
We currently operate Blued via a domestic version and an international version, which were launched in 2012 and 2015 respectively. The two versions are substantially similar in terms of the social networking and live streaming functions, while we adopted different approaches to user interface design to cater to domestic and international users’ preferences. The international version can be used in a broad range of languages to accommodate our globalized user base. As we are in the early stage of developing our health-related services and family planning services, currently they are accessible only on the domestic version of Blued.

Social Networking Services

Location-Based Social Networking

We offer a variety of location-based features that cater to the diverse social needs of our users and enable them to conveniently connect with each other and expand relationships from online to offline. Users can contact each other via messaging or other communication tools on our platform, and follow other users’ accounts in order to receive real-time notifications on their status updates.

- **Nearby** and **Online**. The “Nearby” feature shows a list of nearby users ordered by proximity, and the “Online” feature shows a list of online users ordered by log-in time. Both features enable users to view users’ pictures, proximity, last log-in time, and other profile information.

- **Buzz**. The “Buzz” feature enables users to post their status updates and view, comment on and repost other users’ status updates, in the forms of text, image and short video. This allows users to share their experience and interests with each other.
• **Filter.** Users may filter the lists of nearby or online users by a variety of detailed criteria to cater to their personal preferences, including age, relationship status, height and weight. We further empower our VIP and SVIP users to filter nearby users by verified user status, membership status, distance and last log-in time.

*Content-Based Social Networking*

Leveraging our strong data analytics capabilities and AI-driven technologies, our content-based social features allow users to discover content that is interesting and relevant to them and build connections with other users in our robust global community. The “Square” feature of Blued presents a selected feed of high-quality posts made by users of the general community that is updated on a real-time basis. We identify and recommend trending topics within our global community to encourage our users to join conversations and online interactions based on their interests. We also allow users to discover and react to short videos posted by other users and create short videos themselves through our “Shine Video” function.
Private Messaging

Our social networking services are supported by instant messaging function, which enables users to communicate with each other using various forms of messages including text, our self-designed emojis “gaymojis,” voice recordings, pictures and video messages, as well as real-time communication through audio and video chat functions.

Live Streaming Services

Our application enables viewers to enjoy a wide variety of content and interactive activities including talent shows, matchmaking shows, game shows, storytelling shows, comedy shows and casual chats between broadcasters and viewers, facilitating dynamic and engaging interactions among members of our community. In addition to solo-broadcaster live streaming sessions, we also enable our broadcasters to collaborate with each other to conduct one-on-one battle and multi-broadcaster sessions. Leveraging our artificial intelligent algorithm, we are able to efficiently recommend to viewers live streaming content and broadcasters that they might find interesting.

We offer a wide range of interesting and interactive features such as customized filters, virtual gifts, and special visual effects. Viewers of live streams may interact with broadcasters by posting bullet feeds that can be seen by other viewers or by sending virtual gifts purchased with beans, our platform’s virtual currency. We enable viewers to discover live streaming channels by different categories and view channels of the broadcasters they have followed. Users may apply to become a broadcaster through our required verification processes directly on the mobile app.

Health-related Services

Through the He Health platform, we provide a wide variety of health-related services primarily including (1) HIV-related services and (2) comprehensive men’s health services. Our users can access He Health from Blued.

HIV-related services

We provide easy access to timely and professional HIV screening, pre-exposure prophylaxis (“PrEP”) and post-exposure prophylaxis (“PEP”) solutions. We enable our users to select and order from a comprehensive array of advanced self-test kits and PrEP and PEP medications to be delivered directly to their doorstep, or to be picked up at a pharmacy in our partner network covering 37 major cities in China. We have a customer service team dedicated to providing basic guidance for our users on the use of the medications and kits. For users in need of medical advice regarding their PrEP and PEP plans, we provide online referrals to HIV specialists from recommended hospitals in China who provide follow-up and one-on-one consultation services.

In addition, as an important initiative of our Danlan Public Interest, we enable our users to search for HIV testing locations in China and make appointments directly via Blued. In cooperation with our community partners
throughout China, we have amassed a network of nearly 7,000 testing locations and established 18 express testing centers. We also educate and engage our users by running a forum through He Health, on which we regularly post feature articles and organize “Q&A” threads related to HIV prevention. For more information on our public interest initiatives, see “—Corporate Social Responsibility—Danlan Public Interest.”

**Comprehensive Men’s Health Services**

Helping our users enjoy a healthier life is a top priority of our platform. In partnership with a major online pharmacy in China, He Health provides access to a wide variety of OTC drugs and nutritional supplements related to men’s health. Our users can submit purchase requests, upload relevant medical information and place orders through He Health to efficiently obtain the drugs or supplements they need. We also provide online referrals to users to specialists from top hospitals in China to provide one-on-one consultation services on various men’s health issues. In addition, we provide a selected collection of skincare, lifestyle and sexual wellness products on He Health in cooperation with reputable vendors.

**Family Planning Services**

The pursuit of parenthood is a fundamental need and life goal of many members of our community. We are dedicated to helping them throughout the journey via Bluedbaby family planning services, which are accessible from the Blued application and the website Bluedbaby.com. In addition to the LGBTQ community, our family planning services are also available to all people who are in need of the service. After our users reviewed the comprehensive information about our services and contacted us online, we would set up meetings with them for further engagement.

We recommend our users a customized ART services plan according to their needs and budget. We hand-hold customers through in-depth services provided by third-party ART service providers overseas. Such consulting and administrative services include ongoing facilitation in physical checks, remote conference with global experts, visa application support and logistics arrangements for overseas travel. We maintain rigorous standards in selecting ART services partners with our customers, and carefully consider criteria such as relevant experience, technology, facility, reputation and service quality.
Our Monetization Model

We generate revenue primarily through (1) live streaming services, (2) membership services, (3) advertising services, and (4) other services.

Live Streaming Services

We derive a substantial portion of our revenues from live streaming, primarily through sale of virtual gifts that viewers purchase for the broadcasters. We officially launched our live streaming services in 2016.

Virtual Gifts

We offer a wide variety of innovative virtual gift items to our users, including decorations and other consumable special effects, which they can give to broadcasters to show their appreciation, thereby converting them to paying users. Users are able to purchase virtual gifts on our platform using beans, which in turn can be purchased via embedded payment systems. Beans are non-refundable and may not be converted back to cash or be transferred between users. The RMB equivalent pricing of virtual gifts range approximately from less than RMB1 to RMB8,500. We continuously offer new virtual items related to trendy events and pop culture trends to incentivize purchase and increase sales.

Broadcasters Engagement

We have a large pool of robust, talented and loyal broadcasters on our platform, and share a certain percentage of revenue generated from virtual gift sales with talent agencies that represent these broadcasters. Talent agencies recruit, train and manage broadcasters on our platform. We are committed to supporting the development of our broadcasters and attracting new broadcasters to ensure a sustainable supply of high-quality streaming content on our platform. For broadcasters who join us without a talent agency, we refer them to a third-party talent agency for better management and development. We require talent agencies and their broadcasters to comply with our platform’s polices. We promote our broadcaster’s profile and increase their popularity in a number of ways, such as designating eye-catching “agency-signed broadcaster” or, for certain highly popular agency-signed broadcasters, “official broadcaster” labels to their profile and recommending their channels on the homepage and during special online events. We also continuously encourage our users to become a broadcaster by holding various promotional campaigns to encourage our users to express themselves and showcase their talent.
**Membership Services**

To satisfy our users’ social networking needs and improve their user experience, we provide membership services comprising a wide variety of additional social features and functions that users pay to use mainly in the forms of (1) subscription-based membership services and (2) pay-per-use enhancement functions.

We launched our membership services in June 2018 on the domestic version of Blued. We started to implement a comparable membership service system on the international version in November 2019 with certain offerings differentiated for the international markets.

**Subscription-based Membership Services**

We provide enhanced and additional services to users who subscribe to our membership program by paying membership fees. The domestic version is currently divided into two tiers, VIP and SVIP. Membership services for all members include displaying a VIP logo on their profile, ability to hide distance and last log-in time from other users, personalized homepage, filter to search for other VIP members, personalized chat window background, higher limits on the maximum number of blacklisted users, and other special features unavailable to non-members.

Additional services unlocked for our SVIPs include the abilities to hide log-in status and to visit other users’ profile page, follow other users and view messages received from other users without giving them notice. For users with more specific social networking needs, we currently provide attractive service packages, on our domestic version, that our users can purchase to enjoy for a one-month period that contain certain enhanced privacy and promotional functions.

**Pay-Per-Use Services**

We also empower our users’ to better promote themselves and raise their profile via advanced enhancement functions on a pay-per-service basis, currently including “Promote” and “Spotlight” available on the domestic version. “Promote” promotes a single post that the paying user created by widely pushing the post to other users and thus increasing the likelihood of other users viewing the post for several hours. The paying user can either rely on our intelligent matchmaking algorithm to recommend the post to other users that he might be interested in attracting, or directly target a specific user type by applying a number of filters. After purchasing “Spotlight” service, our platform recommends the paying user to the nearby users for a short period of time, significantly increasing the likelihood of other users visiting or messaging the paying user.

**Advertising Services**

We have an experienced advertising sales team consisting of professionals with extensive experience in the internet advertising industry in China and with deep insights on our brand values. Our brand conveys the key values of diversity, wellness and positivity. We offer a variety of advertising services via Blued without compromising user experience, primarily including (1) display advertising placement on the full screen that appears before the application is loaded, banners on the location-based social homepage, banners on recent visitors page and banners on the user profile page and (2) native advertising placement on the location-based social homepage and recent visitors page. Our advertisers consist of a variety of brands attracted by our platform and user base, including major e-commerce platforms, fast moving consumer goods, cosmetic and beauty products and health products providers in China. As of the date of the prospectus, we provide advertising services primarily on the domestic version of Blued.

**Others**

Through Bluedbaby which we launched in July 2017, we collect consulting service fees from customers of our family planning services.
Through He Health, we generated revenue primarily from consultation services bundled with the HIV-related screening kits, medications and drugs in solution packages. He Health, launched in March 2019, is currently available only in China.

Content Monitoring and Prevention of Minor Usage

We are committed to complying with relevant laws and regulations on online content. We have invested significant resources in developing advanced content monitoring technologies, policies and procedures. We have a dedicated team, which consists of approximately 21% of our employees, to review and handle content on our platform for compliance with applicable laws and regulations.

We maintain content management and review procedures to monitor short-form videos, online chatting rooms, user profiles and news feed, and other content on our platform to promptly identify content that may be deemed inappropriate, in violation of laws, regulations and government policies or infringing upon third-party rights. We have an automated AI-enabled screening mechanism that serves as the first layer of defense in our content review system. This system, incorporating AI technologies provided by third-party service providers, automatically flags and screens out content that involves inappropriate or illegal audio, video, comments or texts. Once the content is processed by the automated screening mechanism, our system then extracts the selected suspicious content and sends to our manual content monitoring team, our second layer of defense, for further review. The content is subject to manual re-assessment, our third layer of defense.

Due to the real time nature of live streaming, we deploy concurrent manual and machine monitoring regarding image content to comply with applicable laws and regulations. Our AI-enabled screening mechanism constantly analyzes the live video feed and flags doubtful content to our content monitoring team for further handling. In addition, we rolled out a report button for all users watching the live streaming so that the content monitoring team may re-examine the one-minute video clip around the point when report button is pressed. When any inappropriate or illegal content is identified, we promptly remove the content. Further actions may also be taken to hold relevant users accountable.

We strictly limit people under the lawful age to use our platform, which is expressly and repeatedly stated in our user terms and conditions, new-user registration page, welcoming screen, home page banner, and chatting interface. Each newly registered user in China is subject to a manual review process as a measure to prevent minor usage. In addition, we have deployed facial recognition technology in China that analyzes the pictures and videos uploaded by users during their registration to filter minors. We also generally require broadcasters to submit their mobile phone numbers, bank information, and valid identifications before initiating any live streaming activities. We actively encourage users to report minor users. Once a user is determined to be under age, the relevant account will be identified and blocked by our platform.

Data Security and Cyber Security Compliance

We are committed to protecting information of all users on our platform. We collect personal information and data only with users’ prior consent. We encrypt confidential personal information we gather from our platform. We strictly control and manage the use of data within our various teams and retain access record. To further ensure data security and avoid data leakage, we have established internal protocols under which we grant classified access to confidential personal data to limited employees with strictly defined and layered access authority through internal application programming interface (API).

We have a security team of engineers and technicians dedicated to protecting the security of our platform and complying with applicable cybersecurity laws and regulations in the regions where we operate. Our back-end security system is capable of handling malicious attacks to safeguard the security of our platform and to protect the privacy of our users. We back up our user and certain other critical forms of data on a daily basis in separate and various secured data back-up systems operated by cloud providers to minimize the risk of data lost.
Our infrastructure and cloud-based data security system has passed ISO 27001 and GB 17859-1999 Level 3 standards. We are in the process of validating our systems under the highest security level under the national cyber security standard.

Our Technology

We have a team of over 130 experienced engineers who are based in China as of September 30, 2019. Our major technology and development teams include those focusing on mobile, front end, big data, artificial intelligence, quality control and infrastructure. Among our technology and development personnel, above 80% hold undergraduate degrees or above, and above 10% hold graduate degrees.

Big Data

We build big data analysis framework on our platform to improve operating efficiencies and user satisfaction. The data we collect include user behavior, profiles, channels, subscription history, and live streaming statistics and key words in posts. The collected data are processed to remove identifying information, transformed, and stored on our big data clusters. We leverage big data analytics and artificial intelligence technologies to enhance the accuracy of user behavior predictions and user profiling and optimize our operation, targeted content and user experience. Internal operational teams may also gain insights with visual representation from sampled data to track their performances.

The seamless collaboration between our technology and operational teams, together with our big data analytics capability have resulted in improved operational efficiency for our company. Our data engineers are involved in all critical operational areas, such as content recommendation, live streaming monitoring, and ads algorithms. They have thorough understanding of the computational needs from different operational teams, and are therefore capable of providing technological support to address diversified needs in operating our platform.

Artificial Intelligence

We believe we are in a unique position to capitalize on the use of artificial intelligence technologies, including computer vision, machine learning, and natural language processing, to provide personalized user experience on our platform. Notable artificial intelligence products include:

User Matching and Content Recommendation

We utilize artificial intelligence and machine learning technologies to empower our ranking and recommendation system to increase the exposure of certain live streaming contents. We also plan to deploy a more personalized ranking system to provide more precise social matching services based on user profiles and preferences.

Real-time Monitoring

We have incorporated various artificial intelligence technologies from third-party service providers, including image and video recognition, natural language processing, voice recognition, and text filters. Combining artificial intelligence with manual verification, we constantly monitor user-generated contents, such as live streaming, chatting room interaction and discussion.

Minor User Prevention

Utilizing facial recognition technology, we analyze the pictures or videos uploaded by new users registering on our platform in China to determine their age. If the system concludes that the user is under eighteen, registration will fail. If the system cannot conclude with certainty, it will escalate the request to the relevant business unit.
Infrastructure

We have developed a secure, efficient and cost-effective cloud-based core system to operate our business. Cloud-based technology allows us to process large amount of complex data in-house, which significantly reduces cost and improves operation efficiency. We currently rely on UC Cloud and Qiniu for all of our computing, storage, bandwidth, content delivery network, and other services both in and outside of China. We currently rely on Akamai for content delivery network outside of China. Data related to users in and outside of China are strictly stored on servers in and outside of China, respectively. This ensures the instant expansion and robustness of our services at peak times. We currently support simultaneous hosting of hundreds and thousands of live streaming and simultaneous streaming services for millions of users. See “Risk Factors—Risks Related to Our Business and Industry—Our business depends on our ability to maintain and scale our technology infrastructure. Any service disruption in our service could damage our reputation, result in a potential loss of users and decrease in user engagement, and seriously harm our business.”

Marketing and Brand Promotion

Our brand values are diversity, healthiness and positivity. We believe that our high-quality products and services lead to strong word-of-mouth referrals, which drives customer awareness of our brand. Our market position benefits significantly from our large and robust user base and our strong brand recognition. Leveraging our in-depth understanding of our users, we adopt a variety of online and offline marketing and promotional activities, including advertising placements through major social networks and search engines, promotional campaigns on app stores, key opinion leader marketing, sponsorship of LGBTQ events, local user groups gatherings and entertainment and user feedback sessions. In addition, our long-standing dedication to public interest initiatives related to the health and recognition of the LGBTQ community is also conducive to building and promoting our brand. To assist with our overseas marketing and promotional activities, we also engage marketing service providers with in-depth local knowledge in a number of countries and regions outside of China.

Customer Service

Providing superior customer service is our top priority. We have established customer service centers based in China. Our users may submit inquiries, feedback or complaints about the use of our products and services by sending messages via online chat or emails at any time. Upon receipt of complaints or inquiries, our customer service team will promptly conduct investigations and provide users with explanations and solutions accordingly.

For our health-related services, we have a customer service team dedicated to providing guidance to our users on various issues, including use of the products, explanation of test results, and referral to HIV or men’s health specialists.

We have not received any complaints from our users that resulted in a material adverse impact on our business.

Corporate Social Responsibility

Danlan Public Interest

Leveraging our deep understanding of and broad connections with the LGBTQ community accumulated throughout the years since Danlan.org, we continuously conduct a wide variety of public interest initiatives related to the LGBTQ community primarily through Danlan Public Interest, BlueCity’s public interest arm. Empowered by our platform’s technologies and data traffic, we believe we were the first in China to introduce the concept of “Internet + HIV prevention” to integrate online and offline HIV prevention efforts. We promoted our “Internet + HIV prevention” practices and experience at the 2016 International AIDS Conference. We are also committed to continuously promoting diversity and LGBTQ awareness around the world by organizing and
participating in a wide variety of social events. Examples of Danlan Public Interest’s initiatives include the following:

**HIV Express Testing.** We empower our users to search for HIV testing locations in China and make appointments directly via Blued. In cooperation with our community partners throughout China, we have amassed a network containing nearly 7,000 testing locations and established 18 express testing centers covering most major cities throughout China. Our first testing center was established in Beijing in 2012. From 2017 to 2019, we facilitated over 23,000 free offline HIV tests in Beijing alone.

**HIV Education.** We committed a portion of Blued platform resources to HIV prevention education. We recommend and promote HIV prevention education materials through our advertising spots, messaging system and He Health’s educational forum. We also cooperate with HIV specialists to produce educational programs distributed in the forms of short video posts and live streaming sessions organized by our Blued official account.

**HIV Research.** We are a natural partner for HIV research. Leveraging our platform’s technological advantages and our large LGBTQ user base, we are able to empower researchers in various aspects of HIV research, including size estimation of LGBTQ population, recruitment of research subjects, assessment of risks and intervention strategies and large-scale survey for feedback on prevention measures. We have worked with a wide range of governmental, academia and corporate partners, including Gilead Sciences, Inc. and Glaxosmithkline (China) Investment Co., Ltd., to conduct HIV-related research and studies. Since 2018, we have participated in 16 studies and co-published 8 research papers on renowned academic journals.

**HIV Prevention Volunteers.** Effective HIV prevention also needs dedicated community efforts offline. We have organized and trained more than 300 volunteers who have worked on HIV testing and prevention initiatives since 2012, with an aggregate of over 30,000 dedicated volunteer hours. We have implemented a standardized program to regularly interview, recruit and train our volunteers and test and evaluate their HIV-related knowledge and service quality.

**Funding for HIV Prevention.** We also work with prominent community partners to provide funding to HIV programs from time to time. For example, in August 2019, in cooperation with Chinese Foundation for Prevention of STD and HIV we established and provided the initial funding for “Danlan Public Interest Fund.” Through the fund, we intend to further gather support from other community partners and HIV-related organizations to strengthen support for HIV prevention efforts among youth.

**Other Social Responsibility and Sustainability Initiatives**

We are committed to serving our community by continuously improving our social responsibility and sustainability performance. In addition to the HIV-related initiatives currently implemented by Danlan Public Interest, we are committed to operating as a strong corporate citizen across many other areas of our business. Among other things, we review and disclose our corporate social responsibility performance on an annual basis. In reference to the United Nations’ Sustainable Development Goals, we have identified certain key areas for a corporation like us to focus on, including operational compliance, user data and privacy protection, community care, product innovation, user experience and customer service, employee health and safety and employee diversity and equality. Examples of some of the activities include the following:

**Diversity and LGBTQ Inclusion.** We are a firm believer in equality and diversity, and in promoting an open and inclusive corporate culture within our company. We also constantly participate in a wide range of activities to promote diversity and LGBTQ inclusion. We routinely organize seminars and gatherings to conduct dialogues with LGBTQ members on their life issues and help provide guidance to them. We also organize LGBTQ social events in cooperation with NGOs, media, and corporate partners with the aim of using our influence to foster a more LGBTQ friendly environment. In 2015, we sponsored a group wedding ceremony of seven Chinese same-sex couples officiated in the U.S., in cooperation with our corporate and NGO partners.
Operational Compliance. We continuously optimize our ability to effectively manage and control our internal systems and processes. We have established various channels to gather external information from our stakeholders, such as our users, suppliers and partners, as well as standardized procedures for internal communications and feedback between each level of our operations. We have also established comprehensive internal policies and procedures to monitor, report and prevent fraudulent and corruptive conduct to improve our operational compliance and promote an ethical and transparent culture.

Talent Development. Talent development is fundamental to our sustainable growth. Our new employee training features a “Rainbow Boat” program, through which we provide comprehensive training tailored to new employees’ personal goals to help them effectively and holistically align themselves with our corporate culture. We also provide various interactive training programs to develop our employees’ professional skills and capabilities, including “Knowledge and Innovation Sharing Sessions” in which we teach them innovative skills and ideas to help them better develop our businesses as well as their own career.

Employee Health. We are committed to improving employees’ physical and mental health. We provide a healthy workplace that offers resources to actively support a healthy lifestyle, such as office gym, ergonomic office supplies and baby care rooms. We also provide our employees access to health check programs and regularly organize recreational activities.

Competition

We currently compete in various intensely competitive industries, primarily including the global online LGBTQ social and entertainment industry, PRC online health services industry and assisted reproductive technology and related consulting industry.

We anticipate that these industries will continue to evolve and experience rapid technological change, evolving industry trends, shifting customer demands, and frequent innovation. We will endeavor to continually innovate to remain competitive.

Intellectual Property

We regard our proprietary domain names, copyrights, trademarks, patents and other intellectual property as critical to our operations. We rely on a combination of patents, copyrights, trademarks and trade secret laws to protect our intellectual property. As of December 31, 2019, we had more than 200 registered trademarks in China and globally including the logo of our Blued application; one patent in China; 11 software copyrights in China; and more than 200 domain names.

We rigorously control access to our proprietary technology and information and maintain internal channels for report of intellectual property rights infringements. There can be no assurance that our efforts will be successful. Even if our efforts are successful, we may incur significant costs in defending our rights. From time to time, third parties may initiate litigation against us alleging infringement of their proprietary rights or claiming they have not infringed our intellectual property rights. See “Risk Factors—Risks Related to Our Business and Our Industry—We have been and may be subject to intellectual property infringement claims or other allegations by third parties, which may materially and adversely affect our business, financial condition and prospects.”
Employees

As of December 31, 2018 and December 31, 2019, we had a total of 351 and 491 full-time employees, respectively. As of December 31, 2019, substantially all of our employees were based in China. The following table sets forth the number of our employees as of December 31, 2019 by function:

<table>
<thead>
<tr>
<th>Functions</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology and development</td>
<td>134</td>
<td>27</td>
</tr>
<tr>
<td>Content monitoring</td>
<td>128</td>
<td>26</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>96</td>
<td>20</td>
</tr>
<tr>
<td>Customer services and operations</td>
<td>92</td>
<td>19</td>
</tr>
<tr>
<td>General and administration</td>
<td>41</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>491</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Our success depends on our ability to attract, retain and motivate qualified employees that share our values. We place great emphasis on our corporate culture to ensure that we maintain consistently high standards everywhere we operate. We believe that we maintain a good working relationship with our employees and we have not experienced any significant labor disputes.

We enter into standard labor contracts and confidentiality agreements with our employees. We typically enter into non-compete agreements with our senior management and technology and development related employees. Under the non-compete agreements, the non-compete restricted period typically expires six months after the termination of employment and we shall compensate the employee with a certain percentage of his or her pre-departure salary during the restricted period, subject to certain conditions.

As required by regulations in China, we participate in various government statutory employee benefit plans. We are required under PRC law to contribute to employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees up to a maximum amount specified by the local government from time to time.

Properties

As of December 31, 2019, we leased an aggregate gross floor area of office space totaling approximately 4,278 square meters, including approximately 3,439 square meters in Beijing, China for the headquarters of our principal operating businesses, approximately 772 square meters in other regions of China, and approximately 71 square meters outside of China.

We believe that our existing facilities are generally adequate in meeting our current needs, but we may seek additional space as needed to accommodate future growth.

Insurance

We maintain various insurance policies to safeguard against risks and unexpected events. We have purchased property insurance, digital business and data protection insurance, business interruption insurance and directors and officers liability insurance. We provide social security insurance for our employees as required by PRC law. We do not have product liability insurance or key-man life insurance.

Legal Proceedings

We are currently not a party to any material legal or administrative proceedings. We may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of business.
Litigation or any other legal or administrative proceeding, regardless of the outcome, is likely to result in substantial costs and diversion of our resources, including our management’s time and attention. See “Risk Factors—Risks Related to Our Business and Our Industry—Our business is subject to complex and evolving laws and regulations in various countries and regions where we have business. Many of these laws and regulations are subject to change and uncertain interpretation, and could result in claims, changes to our business practices, monetary penalties, increased cost of operations, or declines in user growth or engagement, or otherwise harm our business.”
Regulations Relating to Foreign Investment

Guidance Catalogue of Industries for Foreign Investment

Investment activities in the PRC by foreign investors are principally governed by the Guidance Catalogue of Industries for Foreign Investment, which was promulgated and amended from time to time by MOFCOM and NDRC. On June 28, 2017, MOFCOM and NDRC promulgated a revision of the Guidance Catalogue of Industries for Foreign Investment (2017 Revision), or the Catalogue, effective on July 28, 2017. Industries listed in the Catalogue are divided into three categories: encouraged, restricted, and prohibited. On June 28, 2018, NDRC and MOFCOM promulgated the Special Administrative Measures (Negative List) for Foreign Investment Access (2018 Version), or the 2018 Negative List, effective on July 28, 2018. The special administrative measures for foreign investment access (negative list for foreign investment access) specified in the Catalogue are repealed simultaneously, while the catalogue of encouraged industries for foreign investment is still valid. The Negative List and the Industry Guidelines on Encouraged Foreign Investment (2019 Version), or the Encouraged Catalogue, are both promulgated by the NDRC and MOFCOM on June 30, 2019 and became effective on July 30, 2019. The 2018 Negative List is repealed simultaneously by the 2019 Negative List, and the “Industry Guidelines on Encouraged Foreign Investment” in the Catalogue is repealed simultaneously by the Encouraged Catalogue. Therefore, the 2019 Negative List enumerates restricted industries and prohibited industries in relation to the foreign investment, the Encouraged Catalogue enumerates encouraged industries in relation to the foreign investment. Industries neither listed in the 2019 Negative List nor listed in the Encouraged Catalogue are generally deemed to be in the “permitted” category. Establishment of wholly foreign-owned enterprises is generally allowed in encouraged and permitted industries. Some restricted industries are limited to equity or contractual joint ventures, while in some cases Chinese partners are required to hold the majority interests in such joint ventures. In addition, foreign investment in restricted category projects is subject to government approvals. Foreign investors are not allowed to invest in industries in the prohibited category. Industries not listed in the 2019 Negative List are generally open to foreign investment unless specifically restricted by other PRC regulations. Foreign investment in value-added telecommunications services (except for e-commerce, domestic multi-party communication, store-and-forward, and call center) and Internet audio-video program service and Internet culture operation (except for music) fall within the 2019 Negative List.

On October 8, 2016, MOFCOM issued the Interim Measures for Record-filing Administration of the Establishment and Change of Foreign-invested Enterprises, or FIE Record-filing Interim Measures, most recently amended on June 29, 2018 and took effect on June 30, 2018. Pursuant to FIE Record-filing Interim Measures, the establishment and change of foreign-invested enterprises are subject to record-filing procedures, provided that such establishment or change does not involve special entry administration measures. If the establishment or change of foreign-invested enterprises matters involve the special entry administration measures, the approval of the MOFCOM or its local counterparts is still required. On December 30, 2019, MOFCOM and SAMR jointly promulgated the Measures for Information Reporting on Foreign Investment, or the Measures for Information Reporting, which became effective on January 1, 2020. The FIE Record-filing Interim Measures was repealed simultaneously by the Measures for Information Reporting. Pursuant to the Measures for Information Reporting, where a foreign investor carries out investment activities in China directly or indirectly, the foreign investor or the foreign-invested enterprise shall submit the investment information to competent commerce departments. The establishments and changes of foreign-invested enterprises are subject to information reporting procedures through Enterprise Registration System and National Enterprise Credit Information Publicity System.

Pursuant to the Provisions on Administration of Foreign-Invested Telecommunications Enterprises promulgated by the State Council of the People’s Republic of China, or the State Council on December 11, 2001 and most recently amended on February 6, 2016, or the FITE Regulations, the ultimate foreign equity ownership in a value-added telecommunications services provider may not exceed 50%.

Moreover, for a foreign investor to acquire any equity interest in a value-added telecommunication business in China, it must satisfy a number of stringent performance and operational experience requirements, including
demonstrating good track records and experience in operating value-added telecommunication business overseas. Foreign investors that meet these requirements must obtain approvals from the MIIT and MOFCOM or their authorized local counterparts, which retain considerable discretion in granting approvals. The Ministry of Information Industry, or the MII (which is the predecessor of MIIT) issued the Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business, or the MIIT Circular, on July 13, 2006. The MIIT Circular reiterates the regulations on foreign investment in telecommunications businesses, which requires foreign investors to set up foreign invested enterprises and obtain telecommunications business operating licenses to conduct any value-added telecommunications business in China. Under the MIIT Circular, a domestic company that holds telecommunications business operating licenses is prohibited from leasing, transferring or selling the license to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities, to foreign investors that conduct value-added telecommunications business illegally in China.

To comply with PRC laws and regulations, we rely on contractual arrangements with our VIE to operate our value-added telecommunications business, Internet audio-video program service and Internet culture operation in China.

**Foreign Investment Law**

On March 15, 2019, the standing committee of the National People's Congress promulgated the Foreign Investment Law, which came into effect on January 1, 2020 and replaced the trio of old rules regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The existing foreign-invested enterprises established prior to the effective of the Foreign Investment Law may keep their corporate forms within five years. The implementing rules of the Foreign Investment Law will be stipulated separately by State Council. Pursuant to the Foreign Investment Law, “foreign investors” means natural person, enterprise, or other organization of a foreign country, “Foreign Invested Enterprises”, or “FIEs”, means any enterprise established under PRC law that is wholly or partially invested by foreign investors and “foreign investment” means any foreign investor’s direct or indirect investment in mainland China, including: (i) establishing FIEs in mainland China either individually or jointly with other investors; (ii) obtaining stock shares, stock equity, property shares, other similar interests in Chinese domestic enterprises; (iii) investing in new projects in mainland China either individually or jointly with other investors; and (iv) making investment through other means provided by laws, administrative regulations, or State Council provisions.

On December 26, 2019, the State Council promulgated the Implementation Rules to the Foreign Investment Law, which became effective on January 1, 2020. The Implementation Rules to the Foreign Investment Law further clarifies that the state encourages and promotes foreign investment, protects the lawful rights and interests of foreign investors, regulates foreign investment administration, continues to optimize foreign investment environment, and advances a higher-level opening. Competent investment department and commerce department of the State Council shall be responsible for proposing the Negative List for the State Council’s approval. The Negative List will be promulgated by the State Council or its investment department and commerce department, and will be amended in accordance with the social development and the wide-ranging opening up.

The Foreign Investment Law stipulates that China implements the management system of pre-establishment national treatment plus a negative list to foreign investment and the government generally will not expropriate foreign investment, except under special circumstances, in which case it will provide fair and reasonable compensation to foreign investors. Foreign investors are barred from investing in prohibited industries on the negative list and must comply with the specified requirements when investing in restricted industries on that list. When a license is required to enter a certain industry, the foreign investor must apply for one, and the government must treat the application the same as one by a domestic enterprise, except where laws or regulations provide otherwise. In addition, foreign investors or FIEs are required to file information reports and foreign investment shall be subject to the national security review.
Regulations Relating to Telecommunications Services

On September 25, 2000, the State Council issued the Regulations on Telecommunications of China, or the Telecommunications Regulations, as recently amended on February 6, 2016, to regulate telecommunications activities in China. The Telecommunications Regulations set out basic guidelines on different types of telecommunications business activities in China. According to the Catalog of Telecommunications Business (2015 Amendment) implemented on March 1, 2016 (as amended on June 6, 2019), Internet information services constitute a type of value-added telecommunications service. The Telecommunications Regulations require operators of value-added telecommunications services to obtain value-added telecommunications business operation licenses from MIIT, or its provincial branches prior to the commencement of such services.

The FITE Regulations regulate foreign direct investment in telecommunications companies in China. The FITE Regulations stipulate that foreign investors are generally prohibited from holding more than 50% of equity interest in a foreign-invested enterprise that provides value-added telecommunications services, including, among others, provisions of Internet content. In addition, foreign investors are required to have sufficient experience operating value-added telecommunications business when applying for the MIIT’s value-added telecommunications business operation license.

The MIIT Circular, which provides that (a) foreign investors can only operate a telecommunications business in China through telecommunications enterprises with a valid telecommunications business operation license; (b) domestic license holders may not rent, transfer or sell telecommunications business operation licenses to foreign investors in any form or provide any foreign investors with resources, venues or facilities to promote unlicensed operations of telecommunications businesses in China; (c) value-added telecommunications service providers or their shareholders must directly own the domain names and registered trademarks that are used in their daily operations; (d) each value-added telecommunications service provider must have necessary facilities for its approved business operations and maintain such facilities in the geographic regions specified in its license; and (e) all value-added telecommunications service providers should improve their network and information security, establish a relevant information safety system and set up emergency plans to ensure network and information safety.

Regulations Relating to Internet Information Services

The Administrative Measures on Internet Information Services, or the ICP Measures issued by the State Council on September 25, 2000 and amended on January 8, 2011, regulates provisions of Internet information services in the PRC. According to the ICP Measures, Internet information services refer to provisions of information through the Internet to online subscribers, including commercial and non-commercial services. Pursuant to the ICP Measures, commercial Internet information service providers shall obtain ICP Licenses from relevant PRC local authorities before engaging in commercial Internet information services in China. In addition, according to relevant PRC laws, administrative regulations or rules, providers of Internet information services in respect of news, publishing, education, medical treatment, health, pharmaceuticals or medical apparatuses shall obtain consent of the relevant PRC competent authority before applying for an operating permit or carrying out record-filing procedures.

Additionally, the ICP Measures and other relevant measures also prohibit publication of any content that propagates, among others, obscenity, pornography, gambling and violence, incite the commission of crimes or infringe upon the lawful rights and interests of third parties. If an Internet information services provider detects that information transmitted on its system falls under the specified prohibition, such provider must immediately terminate the transmission and delete the information and report it to the governmental authorities. Any provider’s violation of these prohibitions, in serious cases, will lead to revocation of its ICP License and shutdown of its Internet systems.
Regulations Relating to Real-Name Registration System

Pursuant to the Regulations for the Administration of Online Live-Streaming Services, or Internet Live-Streaming Services Provisions, promulgated by the Cyberspace Administration of China, or the CAC, on November 4, 2016, which came into effect on December 1, 2016, live streaming service providers should verify the identity of users on a live streaming platform with their information such as through their mobile phone number. Also, according to the Administrative Measures for Business Activities of Online Performances issued by Ministry of Culture on December 2, 2016 and in effect as of January 1, 2017, live streaming service providers should require streamers on a live streaming platform to make real-name registration.

On August 1, 2018, the National Office of Anti-Pornography and Illegal Publication, the MIIT, the Ministry of Public Security, the MCT, the NRTA, and the CAC jointly promulgated the Notice on Strengthening the Administration of Online Live Streaming Service, or the Online Living Streaming Service Notice. Effective on the same day, the Online Living Streaming Service Notice provides that online live streaming services providers shall implement the user real name system as required, strengthen the administration of broadcasters, establish a broadcaster blacklist system, and improve the system for monitoring and examining the content of live streaming services and the measures for dealing with illegal and harmful content.

Regulations Relating to Mobile Internet Applications Information Services

In addition to the Telecommunications Regulations and other regulations above, mobile applications, or the APPs and the Internet application store, or the APP store, are specially regulated by the Regulations for the Administration of Mobile Internet Applications Information Services, or the APP Provisions, which were promulgated by the CAC, on June 28, 2016 and became effective on August 1, 2016.

Pursuant to the APP Provisions, the APP information service providers shall satisfy relevant qualifications required by laws and regulations, strictly carry out the information security management responsibilities and fulfill their obligations in various aspects relating to the real-name system, protection of users’ information and the examination and management of information content.

Regulations Relating to Online Transmission of Audio-Visual Programs

On April 13, 2005, the State Council promulgated the Certain Decisions on the Entry of the Private Capital into the Cultural Industry, according to which private capital was prohibited from engaging in the business of online transmission of audio-visual programs. On July 6, 2005, five PRC governmental authorities, including the Ministry of Culture, or the MOC (which is the predecessor of the Ministry of Culture and Tourism, or the MCT), the State Administration of Radio Film and Television, or the SARFT (which is currently as the National Radio and Television Administration, or the NRTA), the General Administration of Press and Publication, or the GAPP, the NDRC and the MOFCOM, jointly adopted the Several Opinions on Canvassing Foreign Investment into the Cultural Sector. On December 20, 2007, the SARFT and the MII jointly promulgated the Administrative Provisions on Internet Audio-Visual Program Services, or the Audio-Visual Provisions, which took effect on January 31, 2008 and were subsequently amended on August 28, 2015. Under these provisions, foreign investors are prohibited from engaging in the business of distributing audio-visual programs through Internet.

On May 21, 2008, SARFT issued a Notice on Relevant Issues Concerning Application and Approval of License for the Online Transmission of Audio-Visual Programs, as amended on August 28, 2015, which further sets out detailed provisions concerning the application and approval process regarding the Audio-Visual License. The notice also stipulates that Internet audio-visual program services providers engaging in such services prior to the promulgation of the Audio-Visual Provisions are able to apply for the license so long as their violation of the laws and regulations is minor in scope and can be rectified in a timely manner and they have no records of violation during the three months prior to the promulgation of the Audio-Visual Provisions. Further, on March 30, 2009, SARFT promulgated the Notice on Strengthening the Administration of the Content of Internet
Audio-Visual Programs, which reiterates the pre-approval requirements for the audio-visual programs transmitted through the Internet, including through mobile networks, where applicable, and prohibits certain types of Internet audio-visual programs containing violence, pornography, gambling, terrorism, superstition or other similarly prohibited elements.

On March 17, 2010, the SARFT issued the Internet Audio-Visual Program Services Categories (Provisional), or the Provisional Categories, as amended on March 10, 2017, which classified Internet audio-visual program services into four categories.

In March 2018, the State Administration of Press, Publication, Radio, Film and Television, or the SAPPRFT (which is the predecessor of NRTA), issued the Notice on Further Regulating the Transmission Order of Internet Audio-Visual Programs, which requires that, among others, audio-visual platforms shall: (i) not produce or transmit programs intended to parody or denigrate classic works, (ii) not re-edit, re-dub, re-caption or otherwise ridicule classic works, radio and television programs, or original Internet audio-visual programs without authorization, (iii) not transmit re-edited programs, which unfairly distort the original content, (iv) strictly monitor the adapted content uploaded by platform users and not provide transmission channels for illicit content, (v) immediately take down unauthorized content upon receipt of complaints from copyright owners, radio and television stations, or film and television production institutions, (vi) strengthen the administration of movie trailers and prevent improper broadcasting of movie clips and trailers prior to authorized release, and (vii) strengthen the administration of sponsorship and endorsement for Internet audio-visual programs. Pursuant to this notice, the provincial branches of the NRTA shall have the authority to supervise radio and television stations and websites that offer audio-visual programs within its jurisdiction and require them to further improve their content management systems and implement relevant management requirements.

Regulations Relating to Live Streaming Service

The Notice concerning Strengthening the Administration of the Streaming Service of Online Audio-Visual Programs, or the Notice of Streaming Service promulgated by SAPPRFT on September 2, 2016 emphasizes that, unless a specific license is granted, the audio-visual programs service provider is forbidden from engaging in live streaming on major political, military, economic, social, cultural and sports events. An Internet live-streaming service provider shall: (i) equip personnel to review the content of the live-stream; (ii) establish the technical methods and work mechanisms in order to replace the unlawful content by using the backup program; and (iii) record the live streaming program and keep the records for at least 60 days to fulfill the inspections requirements from the competent administrative authorities.

According to the Internet Live-Streaming Services Provisions, an Internet live streaming service provider shall (a) establish a live streaming content review platform; (b) conduct authentication registration of Internet live-streaming issuers based on their identity certificates, business licenses and organization code certificates; and (c) enter into a service agreement with Internet live-streaming services user to specify both parties’ rights and obligations.

According to the Online Living Streaming Service Notice, online live streaming service providers shall fulfill the website ICP filing formalities with the competent government authorities. Online live streaming services providers involved in the operation of telecommunications services and Internet-based news information, online performances, live broadcast of internet audio-visual programs and other services shall apply to the relevant departments respectively for obtaining licenses for the operation of telecommunications services, Internet-based news information services, network cultural operations, and dissemination of audio-visual programs through information networks and shall complete record-filing formalities with the local public security authorities in accordance with the relevant regulations within 30 days of their live streaming services being launched. Online live streaming services providers shall carry out their business in strict accordance with the licensed scope, and shall not use live streaming services to produce, copy, release, or disseminate information and content prohibited by laws and regulations.
Regulations Relating to Online Cultural Activities

The MOC promulgated the Provisional Measures on Administration of Internet Culture on February 17, 2011, which took effect on April 1, 2011 and was recently amended in December 15, 2017, and the Notice on Issues Relating to Implementing the Newly Revised Provisional Measures on Administration of Internet Culture promulgated by the MOC on March 18, 2011, which apply to entities that engage in activities related to “online cultural products”. “Online cultural products” are classified as cultural products developed, published and disseminated through the Internet which mainly include: (i) online cultural products particularly developed for publishing through the Internet, such as, among other things, online music and video files, network games and online animation features and cartoons (including flash animation); and (ii) online cultural products converted from audio and visual products, games, performing arts, artworks and animation features and cartoons, and published on the Internet. Pursuant to this legislation, entities are required to obtain the Network Culture Operation License from the applicable provincial level counterpart of the MCT if they intend to commercially engage in any of the following types of activities:

- production, duplication, import, release or broadcasting of online cultural products;
- publishing of online cultural products on the Internet or transmission thereof to computers, fixed-line or mobile phones, radios, television sets or game consoles for the purpose of browsing, reading, reviewing, using or downloading such products by online users; or
- exhibitions or contests related to online cultural products.

On August 12, 2013, the MOC issued the Administrative Measures for Content Self-Review by Internet Culture Business Entities, which requires Internet culture business entities to review the content of products and services to be provided prior to providing such content and services to the public. The content management system of an Internet culture business entity is required to specify the responsibilities, standards and processes for content review as well as accountability measures, and is required be filed with the provincial level counterpart of the MCT.

On May 14, 2019, the General Office of MCT promulgated the Notice on Adjustments on the Scope of Approval in relation to the Network Culture Operation License and Further Regulating the Approval Work, or the Notice on Adjustment of the Network Culture Operation License, according to which any activities in relation to chatting, e-commerce, education, training, sports, traveling, etc. shall not be deemed as a network performance which has been adjusted as a specific item in the business scope under Notice on Adjustment of the Network Culture Operation License.

Regulations Relating to Virtual Currency

On January 25, 2007, the Ministry of Public Security, the MOC, the MII and the GAPP jointly issued a circular regarding online gambling which has implications on the issuance and use of virtual currency. To curtail online games that involve gambling while addressing concerns that virtual currency might be used for money laundering or illicit trade, the circular (a) prohibits online game operators from charging commissions in the form of virtual currency in connection with the winning or losing of games; (b) requires online game operators to impose limits on use of virtual currency in guessing and betting games; (c) bans the conversion of virtual currency into real currency or property; and (d) prohibits services that enable game players to transfer virtual currency to other players. To comply with the relevant section of the circular that bans the conversion of virtual currency into real currency or property, in relation to online music and entertainment, our virtual currency currently can only be used by viewers to exchange for virtual items to be used to show support for performers or gain access to privileges and special features in the channels which are services in nature instead of “real currency or property.” Once the virtual currency is exchanged by viewers for virtual items or the relevant privileged services, the conversion transaction is completed and we immediately cancel the virtual item in our internal system.
In February 2007, fourteen PRC regulatory authorities jointly issued a circular to further strengthen the oversight of Internet cafes and online games. In accordance with the circular, the People’s Bank of China, or the PBOC, has the authority to regulate virtual currency, including: (a) setting limits on the aggregate amount of virtual currency that can be issued by online game operators and the amount of virtual currency that can be purchased by an individual; (b) stipulating that virtual currency issued by online game operators can only be used for purchasing virtual products and services within the online games and not for purchasing tangible or physical products; (c) requiring that the price for redemption of virtual currency shall not exceed the respective original purchase price; and (d) banning the trading of virtual currency.

On June 4, 2009, the MOC and the MOFCOM jointly issued the Notice to Strengthen the Administration of Online Game Virtual Currency, or the Virtual Currency Notice. The Virtual Currency Notice requires businesses that (a) issue online game virtual currency (in the form of prepaid cards and/or pre-payment or prepaid card points), or (b) offer online game virtual currency transaction services to apply for approval from the MCT through its provincial branches within three months after the issuance of the notice. The Virtual Currency Notice requires businesses that issue virtual currency for online games are prohibited from offering services that can trade virtual currency. Any company that fails to file the necessary application will be subject to sanctions, including but not limited to, mandatory corrective actions and fines.

Under the Virtual Currency Notice, online games virtual currency trading service provider refers to the business that provides platform services related to virtual trading in online games among game users. The Virtual Currency Notice further requires an online game virtual currency transaction service provider to comply with relevant e-commerce regulations issued by the MOFCOM. According to the Guiding Opinions on Online Trading (Interim) issued by the MOFCOM on March 6, 2007, online platform services are trading services provided to online buyers and sellers through a computer information system operated by the service provider.

The Virtual Currency Notice regulates, among others, the amount of virtual currency a business can issue, the retention period of user records, the function of virtual currency and the return of unused virtual currency upon the termination of online services. Online game operators are prohibited from distributing virtual items or virtual currencies to players through random selection methods such as lottery or betting when the player directly pays cash or virtual currency. Game operators are prohibited from issuing virtual currency to game players in any way other than legal tender purchases. Any business that provides online game virtual currency transaction services is required to adopt technical measures to prohibit the illegal transactions. For game operators do not support online game virtual currency transaction service, technical measures shall be adopted to restrict the transfer of online game virtual currency among accounts of different game players.

On December 1, 2016, the MOC released the Notice on Regulating Online Game Operation and Strengthening Concurrent and Ex-Post Supervision, to be implemented from May 2017, which restates and introduces a series of regulatory requirements governing the online game operation, including clarifications on online game operation and operators, virtual items rules, random-event rules, user protection measures and a reiteration of the MCT’s approval and filing requirements.

Currently, the PRC government has not promulgated any specific rules, laws or regulations to directly regulate virtual currency, except for the above-mentioned online game virtual currency. Although we do not think the Virtual Currency Notice applies to the operation of our live streaming business, given the wide discretion of the governmental authorities and uncertainties in the regulatory environment, there is no assurance that the governmental authorities will not in the future interpret the Virtual Currency Notice in a different way and subject our operation of live streaming business to its scope of regulation.

**Regulations Relating to Internet Information Security and Privacy Protection**

Internet information in China is regulated from a national security standpoint. The National People’s Congress, or the NPC, has enacted the Decisions on Preserving Internet Security on December 28, 2000 and amended on August 27, 2009, which subject violators to potential criminal punishment in China for any attempt to: (i) gain improper entry into a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak state secrets; (iv) spread false commercial information; or (v) infringe intellectual property rights. The Ministry of Public Security of the PRC, or the MPS, has promulgated measures.
that prohibit use of the internet in ways which, among other things, result in a leak of state secrets or a spread of socially destabilizing content. If an internet information service provider violates these measures, the MPS and its local branches may revoke its operating license and shut down its websites.

In recent years, PRC governmental authorities have enacted laws and regulations on internet use to protect personal information from any unauthorized disclosure. Under the Several Provisions on Regulating the Market Order of Internet Information Services, issued by the MIIT on December 29, 2011 and effective on March 15, 2012, an internet information service provider may not collect any user personal information or provide any such information to third parties without the consent of the user. An internet information service provider must expressly inform the users of the method, content and purpose of the collection and processing of such user personal information and may only collect such information necessary for the provision of its services. An internet information service provider is also required to properly maintain the user’s personal information, and in case of any leak or likely leak of the user’s personal information, the internet information service provider must take immediate remedial measures and, in severe circumstances, immediately report to the telecommunications authority. Moreover, pursuant to the Ninth Amendment to the Criminal Law issued by the Standing Committee of the NPC on August 29, 2015 which became effective on November 1, 2015, any internet service provider that fails to fulfill the obligations related to internet information security administration as required by applicable laws and refuses to rectify upon orders, shall be subject to criminal penalty for the result of (i) any dissemination of illegal information in large scale; (ii) any severe effect due to the leakage of the client’s information; (iii) any serious loss of criminal evidence; or (iv) other severe situation. Any individual or entity that (i) sells or provides personal information to others in a way violating the applicable law, or (ii) steals or illegally obtains any personal information, shall be subject to criminal penalty in severe situation. In addition, the Interpretations of the Supreme People’s Court and the Supreme People’s Procuratorate of the PRC on Several Issues Concerning the Application of Law in Handling Criminal Cases of Infringing Personal Information, issued on May 8, 2017 and effective in June 1, 2017, clarified certain standards for the conviction and sentencing of the criminals in relation to personal information infringement. Further, the NPC promulgated a new National Security Law, effective on July 1, 2015, to replace the former National Security Law and covers various types of national security including technology security and information security.

In addition, the Standing Committee of the NPC promulgated the Cyber Security Law of the People’s Republic of China, or the Cyber Security Law, effective on June 1, 2017, to protect cyberspace security and order. Pursuant to the Cyber Security Law, any individual or organization using the network must comply with the constitution and the applicable laws, follow the public order and respect social moralities, and must not endanger cyber security, or engage in activities by making use of the network that endanger the national security, honor and interests, or infringe on the fame, privacy, intellectual property and other legitimate rights and interests of others. The Cyber Security Law sets forth various security protection obligations for network operators, which are defined as “owners and administrators of networks and network service providers”, including, among others, complying with a series of requirements of tiered cyber protection systems, verifying users’ real identity, localizing the personal information and important data gathered and produced by key information infrastructure operators during operations within the PRC, and providing assistance and support to governmental authorities where necessary for protecting national security and investigating crimes. Furthermore, MIIT’s Rules on Protection of Personal Information of Telecommunications and Internet Users promulgated on July 16, 2013, effective on September 1, 2013, contain detailed requirements on the use and collection of personal information as well as security measures required to be taken by telecommunications business operators and internet information service providers.

Pursuant to the Announcement of Conducting Special Activities Against Illegal Collection and Use of Personal Information by APPs, which was jointly released by the CAC, MIIT, MPS and SAMR on January 23, 2019 and became effective on the same date, to further implement and strengthen the Cyber Security Law, (i) the app operators shall strictly fulfill their obligations under the Cyber Security Law and shall be responsible for the personal information collected by them as well as implement effective measures to strengthen the protection of personal information, (ii) competent government authorities shall strengthen its regulations and punishments on
illegal collection and use of personal information in accordance with the Cyber Security Law and the Law on the Protection of Consumer Rights and Interests, and (iii) the MPS will initiate targeted activities against illegal collection and use of personal information online. Furthermore, on November 28, 2019, the CAC, MIIT, MPS and SAMR jointly issued the Notice on Identification of the Illegal Collection and Use of Personal Information by APPs, effective on the same date, to provide detailed methods on identifying illegal collection and use of personal information by APPs.

Regulations Relating to Internet Advertising Business

On July 4, 2016, the State Administration for Industry and Commerce, or the SAIC (which is the predecessor of the SAMR) issued the Interim Measures for the Administration of Internet Advertising, or the Internet Advertising Interim Measures to regulate internet advertising activities, which became effective on September 1, 2016, defining internet advertising as any commercial advertising that directly or indirectly promotes goods or services through websites, webpages, internet applications and other internet media in the forms of words, picture, audio, video or others, including promotion through emails, texts, images, video with embedded links and paid-for search results. According to the Internet Advertising Interim Measures, no advertisement of any medical treatment, medicines, food for special medical purpose, medical apparatuses, pesticides, veterinary medicines, dietary supplement or other special commodities or services subject to examination by an advertising examination authority as stipulated by laws and regulations may be published unless the advertisement has passed such examination. On December 13, 2019, the SAMR issued the Interim Measures for the Administration of Medicines, Medical Apparatuses and Food for Special Medical Purpose, effective on March 1, 2020, clarifying certain issues in the examination of medicines, medical apparatuses and food for special medical purpose. In addition, no entity or individual may publish any advertisement of over-the-counter (OTC) medicines or tobacco on the internet. An internet advertisement must be identifiable and clearly identified as an “advertisement” to the consumers. Paid search advertisements are required to be clearly distinguished from natural search results. In addition, the following internet advertising activities are prohibited: providing or using any applications or hardware to intercept, filter, cover, fast forward or otherwise restrict any authorized advertisement of other persons; using network pathways, network equipment or applications to disrupt the normal data transmission of advertisements, alter or block authorized advertisements of other persons or load advertisements without authorization; or using fraudulent statistical data, transmission effect or matrices relating to online marketing performance to induce incorrect quotations, seek undue interests or harm the interests of others. Internet advertisement publishers are required to verify relevant supporting documents and check the content of the advertisement and are prohibited from publishing any advertisement with unverified content or without all the necessary qualifications. Internet information service providers that are not involved in internet advertising business activities but simply provide information services are required to block any attempt to publish an illegal advisement that they are aware of or should reasonably be aware of through their information services. The administration for industry and commerce shall order the offender to stop publishing advertisement, order the advertiser to eliminate impact within the corresponding scope, and impose a fine ranging from three to five times the amount of the advertising fee if publish advertisements without examination. The administration for industry and commerce shall order the offender to stop publishing advertisement, impose a fine ranging from RMB200,000 to RMB1 million, and in serious cases may also cancel the business license, if publish advertisement of OTC medicines. See “Risk Factors—Risks Related to Our Business and Industry—Any lack of additional requisite approvals, licenses or permits required due to regulatory changes of PRC governmental authorities or failure to comply with any requirements of PRC laws and regulations may materially and adversely affect our daily operations and hinder our growth.”

Regulations Relating to Payment Services

On June 14, 2010, the PBOC issued the Administrative Measures for the Payment Services of Non-Financial Institutions, or the Payment Services Measures, effective on September 1, 2010. Under the Payment Services Measures, a non-financial institution must obtain a payment business license, or Payment License, to provide payment services and qualifies as a paying institution. With the Payment License, a
non-financial institution may serve as an intermediary between payees and payers and provide some or all of the following services: online payment, issuance and acceptance of prepaid card, bank card acceptance, and other payment services as specified by PBOC. Without PBOC’s approval, no non-financial institution or individual may engage in payment business whether explicitly or in a disguised form.

In November 2017, PBOC published a notice, or the PBOC Notice, on the investigation and administration of illegal offering of settlement services by financial institutions and third-party payment service providers to unlicensed entities. The PBOC Notice intended to prevent unlicensed entities from using licensed payment service providers as a conduit for conducting the unlicensed payment settlement services, so as to safeguard the fund security and information security.

Regulations Relating to Pharmaceutical Operation and Service

Pharmaceutical Operation

In September 1984, the Standing Committee of the NPC issued the Drug Administration Law of the People’s Republic of China, or the Drug Administration Law, which was amended in 2001, 2013, 2015 and 2019 respectively to regulate all entities or individuals engaging in research, manufacture, operation, use, supervision and management of drugs within the PRC. According to the Drug Administration Law, no pharmaceutical operation, including pharmaceutical whole-sale and pharmaceutical retail business, is permitted without obtaining the Pharmaceutical Operation License. The Implementation Rules for the Drug Administration Law, was promulgated by the State Council on August 4, 2002 and was recently amended on March 2, 2019, which emphasized the detailed implementation rules of drugs administration. The CFDA promulgated the Measures for the Administration of Pharmaceutical Operation License on February 4, 2004 as amended on November 17, 2017, which stipulate the procedures for applying the Pharmaceutical Operation License and the requirements and qualifications for pharmaceutical wholesalers or pharmaceutical retailers with respect to their management system, personnel, facilities and etc. The valid term of the Pharmaceutical Operation License is five years and shall be renewed six months prior to its expiration date.

According to the Measures on Prescription Drugs and OTC Drugs Classification Management and the Interim Provisions on the Circulation of Prescription and OTC Drugs (Trial), which were both promulgated by the State Drug Administration, which was restructured and integrated into the CFDA, in 1999 and became effective in January 2000, drugs are divided into prescription drugs and over-the-counter drugs, or OTC drugs. For prescription drugs, the dispensing, purchase and use can only be based on the prescription issued by the certified medical practitioner or certified medical assistant practitioner. In addition, the prescription drugs can only be advertised and promoted in professional medical magazines. OTC drugs, on the other hand, are further divided into Class A and Class B and they both can be purchased and used without a prescription and promoted in public upon approval by the relevant governmental authorities. The pharmaceutical wholesale enterprises distributing prescription drugs and/or OTC drugs, as well as pharmaceutical retail enterprises selling prescription drugs and/or Class A OTC drugs are required to obtain the Pharmaceutical Operation License.

Medical Devices Operation

According to the Regulations on the Supervision and Administration of Medical Devices, which was promulgated by the State Council in January 2000 and amended in 2014 and 2017, respectively, and the Supervision and Management Measures on Medical Devices Operation, which was promulgated by the CFDA in July 2014 and amended in 2017, business operations of medical devices are regulated based on the degree of risks involving the medical devices, which are divided into three categories. Operation of Class I medical devices does not require a license or record-filing, while operations of Class II medical devices and Class III medical devices are subject to record-filing and licensing requirements, respectively. An entity engaging in the operation of medical devices shall meet certain requirements with respect to its management system, personnel, facilities etc., and shall apply for approval to operate Class III medical devices and make record-filing with relevant governmental authority to operate Class II medical devices. The valid term of medical devices operation permit is five years.
Pursuant to the Supervision and Management Measures on Medical Devices Operation, an alteration to items borne on a License for Business Operations of Medical Devices includes alteration to licensed items and alteration to registered items. An alteration of business model, business scope is an alteration to licensed items, to which, an enterprise shall apply to the administration that issued the License for Business Operations of Medical Devices and submit altered documents. See “Risk Factors—Risks Related to Our Business and Industry—We may be adversely affected by the complexity, uncertainties and changes in PRC laws and regulation, and any lack of requisite approvals, licenses or permits applicable to our business may have a material adverse effect on our business, financial conditions and results of operations."

Regulations Relating to Online Operation of Drugs and Medical Devices

Internet Drug Information Service

The Administrative Measures on Internet Drug Information Service, or Internet Drug Measures, was promulgated by the CFDA on July 8, 2004 and amended on November 17, 2017, pursuant to which the internet drug information services is to provide drug (including medical device) information services to online users, which is divided into commercial internet drug information services and non-commercial internet drug information services. The website operator that provides drugs (including medical devices) information services must obtain an Internet Drug Information Service Qualification Certificate from the competent counterpart of the CFDA. The valid term for an Internet Drug Information Service Qualification Certificate is five years and may be renewed at least six months prior to its expiration date upon a re-examination by the relevant governmental authorities.

Furthermore, as requested by Internet Drug Measures, the information relating to drugs shall be accurate and scientific in nature, and its provision shall comply with the relevant laws and regulations. No product information of stupefacient, psychotropic drugs, medicinal toxic drugs, radiopharmaceutical, detoxification drugs and pharmaceutics made by medical institutes shall be distributed on the website. In addition, advertisements relating to drugs (including medical devices) shall be approved by the CFDA or its competent counterparts.

Internet Medical Services

According to the Opinion Concerning the Promotion of the Development of Internet Plus Medical and Health, promulgated and implemented on April 25, 2018 by the General Office of the State Council, third-party organizations such as the internet medical health service platform shall ensure that the qualifications of their medical service staffs are in compliance with the relevant regulation provisions and bear the responsibilities for the services provided. The internet medical health service platform shall also be strictly in accordance with the relevant regulation provisions regarding information security and confidentiality obligations for health and medical data, and establish or improve its privacy information protection system.

According to the Notice of Publishing of the Measures on the Administration of the Internet Diagnosis and Treatment (For Trial Implementation) and Other Two Documents, which was promulgated and implemented on July 17, 2018 by the National Health Commission and State Administration of Traditional Chinese Medicine, Internet diagnosis and treatment refers to the use of doctors registered in the institution using the Internet and other information technology to carry out diagnosis of some common diseases, chronic diseases re-diagnosis and “Internet Plus” family doctor contract services. Internet diagnosis and treatment activity shall be provided by medical institution that has obtained the Medical Institution Practicing License and the medical institution shall apply for registration of Internet diagnosis and treatment activity. Medical institutions carrying out Internet diagnosis and treatment activities should be consistent with their diagnosis and treatment subjects. See “Risk Factors—Risks Related to Our Business and Industry —We may be adversely affected by the complexity, uncertainties and changes in PRC laws and regulation, and any lack of requisite approvals, licenses or permits applicable to our business may have a material adverse effect on our business, financial conditions and results of operations.”
**Internet Drug Transaction Services**

The Interim Provisions on the Examination and Approval of Internet Drug Transaction Services, or Interim Provisions of Internet Drug Transaction, were promulgated by the CFDA on September 29, 2005 and became effective on December 1, 2005, and regulate transaction of drugs (including medical devices and packing materials and containers that are in direct contact with drugs) over internet, including the provision of transaction services among pharmaceutical manufacturers, pharmaceutical operation enterprises and medical institutes, the services provided by pharmaceutical manufacturers and pharmaceutical wholesale enterprises to other third parties via their own websites and services provided by pharmaceutical retail chain enterprises to individual consumers. According to Interim Provisions of Internet Drug Transaction, enterprises engaging in providing drug transaction services over the internet must obtain an Internet Drug Transaction Qualification Certificate. Such certificates have a term of five years and have three types: A certificate, B certificate and C certificate. They are only issued to three kinds of enterprises: (i) enterprises that provide drug transaction services to pharmaceutical manufacturers, pharmaceutical operation enterprises and medical institutions, but do not participate in pharmaceutical manufacture and operation and do not own, have no property relationship or other economic interest with the administrative organizations, medical institutions or pharmaceutical manufacture and operation enterprises; (ii) pharmaceutical manufacturers and pharmaceutical wholesale enterprises that deal with other third-party enterprises via their own websites; (iii) the pharmaceutical retail chain enterprises that provide OTC drug transaction services for individual consumers via the internet.

However, according to the Decision on the Cancellation of the Third Batch of Items Subject to Administrative Permission by Local Governments Designated by the Central Government, promulgated by the State Council on January 12, 2017, except for third-party platforms, all approvals of internet drug transaction service enterprises implemented by counterparts of CFDA at the provincial level are cancelled. In April 2017, the General Office of the CFDA promulgated a notice on implementing the above mentioned decision, pursuant to which pharmaceutical manufacture enterprises and pharmaceutical wholesale enterprises may carry out internet drug (including medical device) transactions with other enterprises through their own websites, but shall not provide internet drug (including medical device) transaction services to individual consumers. In addition, pharmaceutical retail chain enterprises may provide internet drug (including medical device) transaction services to individual consumers, but they shall not exceed the business scope permitted by license and filings and display information of prescription drugs on related transaction webpages, or sell prescription drugs or the OTC drugs under special administrative requirements; as indicated in such decision, the CFDA will promulgate subsequently the relevant rules on supervision of internet drug (including medical device) transaction.

Furthermore, according to the Decision on the Cancellation of Various Items Subject to Administrative Permission promulgated by the State Council on September 22, 2017, the enterprises engaging in internet drug transaction service as a third-party platform shall no longer be subject to the examination and approval of the CFDA before carrying out such business. On November 2, 2017 the General Office of the CFDA promulgated a Notice on Strengthening the Administration and Supervision of Internet Drug and Medical Devices Transaction, which specify the approval to conduct internet drug transaction service as the third-party platform is cancelled, but enterprises carrying out internet drug (including medical) transaction services shall establish a comprehensive supervision system in general and also request local counterparts of CFDA to implement day-to-day supervision and examination with respect to qualification access examination, products inspection, storage of transaction data and legal liabilities etc.

**Online Sales of Drugs and Medical Device**

On February 9, 2018, the CFDA released the draft Administrative Measures for Supervision and Regulation of Online Drug Sales for comments. The draft stipulates that sellers and online platforms engaging in this business shall obtain relevant certificates and have sufficient medical staff and operating systems to guarantee the safety and quality of the drugs. Furthermore, these entities shall make record-filing with the counterparts of CFDA at provisional level. In particular, the transaction webpages for sale of prescription drugs to individuals...
are not allowed to display prescription drugs information via the internet. As of the date of this prospectus, the draft has not come into effect and there are substantial uncertainties with respect to its enactment timetable and final provisions.

On August 26, 2019, the Standing Committee of the NPC promulgated the Administrative Law of the Pharmaceutical, or the Pharmaceutical Law, which became effective on December 1, 2019. The Pharmaceutical Law does not include prescription drugs as an item that are prohibited to be sold online definitely. Further, detailed administrative measures shall be promulgated by corresponding governmental authorities in relation to a company engaging in sales of pharmaceutical online. However, as of the date of this prospectus, no further administrative measure has been promulgated.

On December 20, 2017, the CFDA promulgated the Administration and Supervision Measures of Online Sales of Medical Devices, or the Online Medical Devices Sales Measures, which became effective on March 1, 2018. According to the Online Medical Devices Sales Measures, enterprises engaged in online sales of medical devices must be medical device manufacture and operation enterprises with medical devices production licenses or operation licenses or being filed for record in accordance with laws, unless such licenses or record-filing is not required by laws and regulations, and the third-party platform for provision of online medical devices transaction services shall obtain an Internet Drug Information Services Qualification License. Either enterprises for online sales of medical devices or enterprises for provision of medical devices online transaction services shall take technical measures to ensure the data and materials of medical devices online sales are authentic, completed and retrospective, for example the records of sale information of medical devices shall be kept for two years after the valid period of the medical devices, and for no less than five years in case of no valid period, or be kept permanently in case of implanted medical devices.

Regulations Relating to Human Assisted Reproductive Technology

The Ministry of Health promulgated the Management Measures on Human Assisted Reproductive Technology on February 20, 2001 and it became effective on August 1, 2001. It stipulates that human assisted reproductive procedures should only be carried out in approved and registered medical institutions. No entity or individual should carry out human assisted reproductive procedures without the approval of competent health authority. Furthermore, medical institutions must obtain human assisted reproductive technology licenses, which are subject to regular examinations by the governmental approval authority. In the event the medical institution fails to pass the examination, the human assisted reproductive technology licenses would be revoked.

On April 3, 2015, twelve departments promulgated the Work Plan for Combating Surrogacy, or the Work Plan. According to the Work Plan, a national leading group will be established to combat surrogacy activities, any intermediaries that carry out surrogacy activities and any networks, television broadcasts, newspapers and magazines, etc. for the promotion and service of surrogacy activities shall be cleaned up. On June 8, 2017, twelve departments promulgated Work Plan for Investigating and Handling Illegal and Irregular Use of Human Assisted Reproductive Technology, according to which relevant departments shall strengthen supervision on the advertisement in relation to human assisted reproductive technology and any websites with illegal information and advertisement with respect to human assisted reproductive technology shall be cleaned-up.

Regulations Relating to Intellectual Property in the PRC

Copyright

Pursuant to the Copyright Law of the PRC, as amended in 2010, copyrights include personal rights such as the right of publication and that of attribution as well as property rights such as the right of production and that of distribution. Reproducing, distributing, performing, projecting, broadcasting or compiling a work or communicating the same to the public via an information network without permission from the owner of the copyright therein, unless otherwise provided in the Copyright Law of the PRC, shall constitute infringements of copyrights. The infringer shall, according to the circumstances of the case, undertake to cease the infringement, take remedial action, and offer an apology, pay damages, etc.
Trademark

Pursuant to the Trademark Law of the PRC, as most recently amended in 2019, the right to exclusive use of a registered trademark shall be limited to trademarks which have been approved for registration and to goods for which the use of such trademark has been approved. The period of validity of a registered trademark shall be ten years, counted from the day the registration is approved. According to this law, using a trademark that is identical to or similar to a registered trademark in connection with the same or similar goods without the authorization of the owner of the registered trademark constitutes an infringement of the exclusive right to use a registered trademark. The infringer shall, in accordance with the regulations, undertake to cease the infringement, take remedial action, and pay damages, etc.

Patent

Pursuant to the Patent Law of the PRC, as amended in 2008, after the grant of the patent right for an invention or utility model, except where otherwise provided for in the Patent Law, no entity or individual may, without the authorization of the patent owner, exploit the patent, that is, make, use, offer to sell, sell or import the patented product, or use the patented process, or use, offer to sell, sell or import any product which is a direct result of the use of the patented process, for production or business purposes. After a patent right is granted for a design, no entity or individual shall, without the permission of the patent owner, exploit the patent, that is, for production or business purposes, manufacture, offer to sell, sell, or import any product containing the patented design. Once the infringement of patent is confirmed, the infringer shall, in accordance with the regulations, undertake to cease the infringement, take remedial action, and pay damages, etc.

Domain Name

Pursuant to the Measures for the Administration of Internet Domain Names of China promulgated in November 2004 and effective December 2004, or the 2004 Domain Names Measures, and the Measures for the Administration of Internet Domain names promulgated in August 2017 and effective November 2017 to replace the 2004 Domain Names Measures, “domain name” shall refer to the character mark of hierarchical structure, which identifies and locates a computer on the internet and corresponds to the internet protocol (IP) address of that computer. The principle of “first come, first serve” is followed for the domain name registration service. After completing the domain name registration, the applicant becomes the holder of the domain name registered by him/her. Any organization or individual may file an application for settlement with the domain names dispute resolution institution or file a lawsuit in the people’s court in accordance with the law, if such organization or individual consider its/his legal rights and interests to be infringed by domain names registered or used by others.

Regulations Relating to Internet Infringement

Pursuant to the PRC Tort Law, or the Tort Law, which was promulgated by the Standing Committee of NPC on December 26, 2009, effective on July 1, 2010, and the Regulations on Protection of Information Network Transmission Right, which was promulgated by the State Council on May 18, 2006, effective on July 1, 2006 and was last amended on January 30, 2013, an Internet user or an Internet service provider that infringes upon the civil rights or interests of others through using the Internet assumes tort liability. If an Internet user infringes upon the civil rights or interests of another through using the Internet, the person being infringed upon has the right to notify and request the Internet service provider whose Internet services are facilitating the infringement to take necessary measures including the deletion, blocking or disconnection of an Internet link. If, after being notified, the Internet service provider fails to take necessary measures in a timely manner to end the infringement, it will be jointly and severally liable for any additional harm caused by its failure to act.

Regulations Relating to Labor Protection in the PRC

According to the Labor Law of the PRC, or the Labor Law, which was promulgated by the Standing Committee of the NPC in July 1994, effective in January 1, 1995, and most recently amended in December
2018, an employer shall develop and improve its rules and regulations to safeguard the rights of its workers. An employer shall develop and improve its labor safety and health system, stringently implement national protocols and standards on labor safety and health, conduct labor safety and health education for workers, guard against labor accidents and reduce occupational hazards.

The Labor Contract Law of the PRC, which was promulgated by the NPC Standing Committee on June 29, 2007, effective on January 1, 2008, and most recently amended in December 2012, and the Implementation Regulations on Labor Contract Law, promulgated and became effective on September 18, 2008, regulate both parties to a labor contract, namely the employer and the employee, and contain specific provisions involving the terms of the labor contract. It is stipulated by the Labor Contract Law and the Implementation Regulations on Labor Contract Law that a labor contract must be made in writing. An employer and an employee may enter into a fixed-term labor contract, an un-fixed term labor contract, or a labor contract that concludes upon the completion of certain work assignments, after reaching agreement upon due negotiations. An employer may legally terminate a labor contract and dismiss its employees after reaching agreement upon due negotiations with the employee or by fulfilling the statutory conditions. Labor contracts concluded prior to the enactment of the Labor Contract Law and subsisting within the validity period thereof shall continue to be honored. With respect to a circumstance where a labor relationship has already been established but no formal contract has been made, a written labor contract shall be entered into within one month from the effective date of the Labor Contract Law.

According to the Interim Regulations on the Collection and Payment of Social Insurance Premiums, the Regulations on Workplace Injury Insurance, the Regulations on Unemployment Insurance and the Trial Measures on Employee Maternity Insurance of Enterprises, enterprises in the PRC shall provide benefit plans for their employees, which include basic pension insurance, unemployment insurance, maternity insurance, workplace injury insurance and basic medical insurance. An enterprise must provide social insurance by processing social insurance registration with local social insurance agencies, and shall pay or withhold relevant social insurance premiums for or on behalf of employees. The Law on Social Insurance of the PRC, which was promulgated in October 2010, effective July 2011, and most recently amended in December 2018, has consolidated pertinent provisions for basic pension insurance, unemployment insurance, maternity insurance, workplace injury insurance and basic medical insurance, and has elaborated in detail the legal obligations and liabilities of employers who do not comply with relevant laws and regulations on social insurance.

According to the Interim Measures for Participation in the Social Insurance System by Foreigners Working within the Territory of China, promulgated by the Ministry of Human Resources and Social Security in September 2011, and effective October 2011, employers who employ foreigners shall participate in the basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, and maternity leave insurance in accordance with the relevant law, with the social insurance premiums to be contributed respectively by the employers and foreigner employees as required. In accordance with such Interim Measures, the social insurance administrative agencies shall exercise their right to supervise and examine the legal compliance of foreign employees and employers, and the employers who do not pay social insurance premiums in conformity with the laws shall be subject to the administrative provisions provided in the Social Insurance Law and other relevant regulations and rules.

According to the Regulations on the Administration of Housing Provident Fund, which was promulgated in and effective April 1999, and was most recently amended in March 2019, housing provident fund contributions by an individual employee and housing provident fund contributions by his or her employer shall belong to the individual employee.

The employer shall timely pay up and deposit housing provident fund contributions in full amount and late or insufficient payments shall be prohibited. The employer shall process housing provident fund payment and deposit registrations with the housing provident fund administration center. With respect to companies who violate the above regulations and fail to process housing provident fund payment and deposit registrations or open housing provident fund accounts for their employees, such companies shall be ordered by the housing
provident fund administration center to complete such procedures within a designated period. Those who fail to process their registrations within the designated period shall be subject to a fine ranging from RMB10,000 to RMB50,000. When companies violate these regulations and fail to pay up housing provident fund contributions in full amount as due, the housing provident fund administration center shall order such companies to pay up within a designated period, and may further apply to the People’s Court for mandatory enforcement against those who still fail to comply after the expiry of such period. See “Risk Factors—Risks Related to Our Business and Industry—We may be adversely affected by the complexity, uncertainties and changes in PRC laws and regulation, and any lack of requisite approvals, licenses or permits applicable to our business may have a material adverse effect on our business, financial conditions and results of operations.”

Regulations Relating to Tax in the PRC

**Income Tax**

The PRC Enterprise Income Tax Law was promulgated in March 2007 and was most recently amended in December 2018. The PRC Enterprise Income Tax Law applies a uniform 25% enterprise income tax rate to both foreign-invested enterprises and domestic enterprises, except where tax incentives are granted to special industries and projects. Under the PRC Enterprise Income Tax Law, an enterprise established outside of China with a “de facto management body” within China is considered a “resident enterprise” for PRC enterprise income tax purposes and is generally subject to a uniform 25% enterprise income tax rate on its worldwide income. Under the implementation regulations to the PRC Enterprise Income Tax Law, a “de facto management body” is defined as the body that exercises full and substantial control and overall management over the business, productions, personnel, accounts and properties of an enterprise.

In January 2009, the SAT promulgated the Provisional Measures for the Administration of Withholding of Enterprise Income Tax for Non-resident Enterprises, or the Non-resident Enterprises Measures, pursuant to which entities that have the direct obligation to make certain payments to a nonresident enterprise shall be the relevant tax withholders for such non-resident enterprise. Further, the Non-resident Enterprises Measures provide that, in case of an equity transfer between two non-resident enterprises occurring outside of China, which is indirectly related to the transfer of equity interests of a PRC resident enterprise, the non-resident enterprise which receives the equity transfer payment shall, by itself or engage an agent to, file a tax declaration with the PRC tax authority located at the place of the PRC company whose equity has been transferred, and the PRC company whose equity has been transferred shall assist the tax authorities to collect taxes from the relevant non-resident enterprise. In April 2009, the Ministry of Finance, or the MOF, and the SAT jointly issued the Notice on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business, or Circular 59. In December 2009, the SAT issued the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, or Circular 698. Both Circular 59 and Circular 698 became effective retroactively as of January 2008. In February 2011, the SAT issued the Notice on Several Issues Regarding the Income Tax of Non-PRC Resident Enterprises, or SAT Circular 24, effective April 2011. By promulgating and implementing these circulars, the PRC tax authorities have enhanced their scrutiny over the direct or indirect transfer of equity interests in a PRC resident enterprise by a non-resident enterprise.

In January 2014, the Notice on Issues Relating to Handling Enterprise Income Tax in Promoting Enterprise Restructuring promulgated by MOF and the SAT took effect and partly superseded provisions in Circular 59. In February 2015, the SAT issued the Notice on Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-PRC Resident Enterprises, or SAT Circular 7, to supersede existing provisions in relation to the indirect transfer as set forth in Circular 698, while the other provisions of Circular 698 remain in force. SAT Circular 7 introduces a new tax regime that is significantly different from that under Circular 698. SAT Circular 7 extends its tax jurisdiction to capture not only indirect transfers as set forth under Circular 698 but also transactions involving transfer of immovable property in China and assets held under the establishment, and placement in China, of a foreign company through the offshore transfer of a foreign intermediate holding company. SAT Circular 7 also addresses transfer of the equity interest in a foreign intermediate holding company.
broadly. In addition, SAT Circular 7 provides clearer criteria than Circular 698 on how to assess reasonable commercial purposes and introduces safe harbor scenarios applicable to internal group restructurings and the purchase and sale of equity through a public securities market. However, it also brings challenges to both the foreign transferor and transferee of the indirect transfer as they have to determine whether the transaction should be subject to PRC tax and to file or withhold the PRC tax accordingly. In October 2017, the SAT issued the Announcement on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises, or SAT Circular 37. SAT Circular 37, effective December 2017, superseded the Non-resident Enterprises Measures and SAT Circular 698 as a whole and partially amended some provisions in SAT Circular 24 and SAT Circular 7. SAT Circular 37 purports to clarify certain issues in the implementation of the above regime, by providing, among others, the definition of equity transfer income and tax basis, the foreign exchange rate to be used in the calculation of withholding amount, and the date of occurrence of the withholding obligation. Specifically, SAT Circular 37 provides that where the transfer income subject to withholding at source is derived by a non-PRC resident enterprise in instalments, the instalments may first be treated as recovery of costs of previous investments. Upon recovery of all costs, the tax amount to be withheld must then be computed and withheld.

Value-Added Tax

According to the Temporary Regulations on Value-added Tax, amended in November 2017, and the Detailed Implementing Rules of the Temporary Regulations on Value-added Tax, amended in October 2011, all taxpayers selling goods, providing processing, repair or replacement services or importing goods within the PRC shall pay value-added tax. The tax rate of 17% shall be levied on general taxpayers selling or importing various goods; the tax rate of 17% shall be levied on the taxpayers providing processing, repairing or replacement service; the applicable rate for the export of goods by taxpayers shall be nil, unless otherwise stipulated.

Furthermore, according to the Trial Scheme for the Conversion of Business Tax to Value-added Tax, promulgated by the Ministry of Finance and the SAT in November 2011, the State Council began to launch taxation reforms in a gradual manner in January 2012, whereby the collection of value-added tax in lieu of business tax items was implemented on a trial basis in regions showing significant radiating effects in economic development and providing outstanding reform examples, beginning with production service industries such as transportation and certain modern service industries.

In accordance with a SAT circular that took effect in May 2016, upon approval of the State Council, the pilot program of the collection of value-added tax in lieu of business tax shall be promoted nationwide in a comprehensive manner starting from May 2016, and all taxpayers of business tax engaged in the construction industry, the real estate industry, the financial industry and the life science industry shall be included in the scope of the pilot program with regard to payment of value-added tax instead of business tax.

In April 2018, MOF and the SAT jointly promulgated the Circular of the Ministry of Finance and the State Administration of Taxation on Adjustment of Value-Added Tax Rates, or Circular 32, according to which (i) for VAT taxable sales acts or importation of goods originally subject to value-added tax rates of 17% and 11% respectively, such tax rates shall be adjusted to 16% and 10%, respectively; (ii) for purchase of agricultural products originally subject to deduction rate of 11%, such deduction rate shall be adjusted to 10%; (iii) for purchase of agricultural products for the purpose of production and sales or consigned processing of goods subject to tax rate of 16%, such tax shall be calculated at the deduction rate of 12%; (iv) for exported goods originally subject to tax rate of 17% and export tax refund rate of 17%, the export tax refund rate shall be adjusted to 16%; and (v) for exported goods and cross-border taxable acts originally subject to tax rate of 11% and export tax refund rate of 11%, the export tax refund rate shall be adjusted to 10%. Circular 32 became effective on May 1, 2018 and shall supersede existing provisions which are inconsistent with Circular 32.

In March 2019, MOF, the SAT and General Administration of Customs jointly promulgated the Announcement on Policies for Deepening the VAT Reform, or Circular 39, according to which (i) for VAT taxable sales acts or importation of goods originally subject to value-added tax rates of 16% and 10%
respectively, such tax rates shall be adjusted to 13% and 9%, respectively; (ii) for purchase of agricultural products originally subject to deduction rate of 10%, such deduction rate shall be adjusted to 9%; (iii) for purchase of agricultural products for the purpose of production and sales or consigned processing of goods subject to tax rate of 13%, such tax shall be calculated at the deduction rate of 10%; (iv) for exported goods originally subject to tax rate of 16% and export tax refund rate of 16%, the export tax refund rate shall be adjusted to 13%; and (v) for exported goods and cross-border taxable acts originally subject to tax rate of 10% and export tax refund rate of 10%, the export tax refund rate shall be adjusted to 9%. Circular 39 became effective on April 1, 2019 and shall supersede existing provisions which are inconsistent with Circular 39.

Regulations Relating to Dividend Distributions

The principal regulations governing the distribution of dividends of foreign holding companies include the Foreign Investment Enterprise Law issued in 1986 and most recently amended in 2016, and the Administrative Rules under the Foreign Investment Enterprise Law issued in 1990 and most recently amended in 2014. Under these regulations, foreign investment enterprises in China may pay dividends only out of their accumulated profits, if any, as determined in accordance with PRC accounting standards and regulations. In addition, a foreign investment enterprises in China is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves until its cumulative total reserve funds reaches 50% of its registered capital. These reserve funds, however, may not be distributed as cash dividends. The proportional ratio for withdrawal of rewards and welfare funds for employees shall be determined at the discretion of the WFOE. Profits of a WFOE shall not be distributed before the losses thereof before the previous accounting years have been made up. Any undistributed profit for the previous accounting years may be distributed together with the distributable profit for the current accounting year.

Regulations Relating to Foreign Exchange

Regulations Relating to Foreign Exchange Registration of Overseas Investment by PRC Residents

Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment Through Special Purpose Vehicles, or Circular 37, issued by SAFE in and effective in July 2014, regulates foreign exchange matters in relation to the use of special purpose vehicles, or SPVs, by PRC residents or entities to seek offshore investment and financing and conduct round trip investment in China. Under Circular 37, a SPV refers to an offshore entity established or controlled, directly or indirectly, by PRC residents or entities for the purpose of seeking offshore financing or making offshore investment, using legitimate domestic or offshore assets or interests, while “round trip investment” refers to the direct investment in China by PRC residents or entities through SPVs, namely, establishing foreign-invested enterprises to obtain the ownership, control rights and management rights. Circular 37 requires that, before making contribution into an SPV, PRC residents or entities are required to complete foreign exchange registration with SAFE or its local branch. Circular 37 further provides that option or share- based incentive tool holders of a non-listed SPV can exercise the options or share incentive tools to become a shareholder of such non-listed SPV, subject to registration with SAFE or its local branch.

PRC residents or entities who have contributed legitimate domestic or offshore interests or assets to SPVs but have yet to obtain SAFE registration before the implementation of the Circular 37 shall register their ownership interests or control in such SPVs with SAFE or its local branch. An amendment to the registration is required if there is a material change in the registered SPV, such as any change of basic information (including change of such PRC resident’s name and operation term), increases or decreases in investment amounts, transfers or exchanges of shares, or mergers or divisions. Failure to comply with the registration procedures set forth in Circular 37, or making misrepresentation or failure to disclose controllers of foreign-invested enterprise that is established through round-trip investment, may result in restrictions on the foreign exchange activities of the relevant foreign-invested enterprises, including payment of dividends and other distributions, such as proceeds from any reduction in capital, share transfer or liquidation, to its offshore parent or affiliate, and the capital.
inflow from the offshore parent, and may also subject relevant PRC residents or entities to penalties under PRC foreign exchange administration regulations. In February, 2015, SAFE further promulgated the Circular on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment, or SAFE Circular 13, became effective on June 1, 2015. This SAFE Circular 13 has amended SAFE Circular 37 by requiring PRC residents or entities to register with qualified banks rather than SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. Circular 37 is applicable to our shareholders who are PRC residents and may be applicable to any offshore acquisitions that we make in the future. All of our shareholders who, to our knowledge, are subject to the above SAFE regulations have completed the necessary registrations with the local SAFE branch or qualified banks as required by SAFE Circular 37.

According to the SAFE Circular 13, those who fails to comply with the requirements set forth in the preceding paragraph, the foreign exchange control authorities shall conduct business control over them in the capital account information system, and banks shall not carry out foreign exchange businesses under the capital account for them. See “Risk Factors—Risks Related to Our Business and Industry—We may be adversely affected by the complexity, uncertainties and changes in PRC laws and regulation, and any lack of requisite approvals, licenses or permits applicable to our business may have a material adverse effect on our business, financial conditions and results of operations.”

On March 30, 2015, SAFE promulgated the Circular on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises, or Circular 19, effective on June 1, 2015. According to Circular 19, the foreign exchange capital of foreign-invested enterprises shall be subject to the Discretional Foreign Exchange Settlement. The Discretional Foreign Exchange Settlement refers to the foreign exchange capital in the capital account of a foreign-invested enterprise for which the rights and interests of monetary contribution has been confirmed by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) can be settled at the banks based on the actual operational needs of the foreign-invested enterprise. The proportion of Discretional Foreign Exchange Settlement of the foreign exchange capital of a foreign-invested enterprise is temporarily determined to be 100%. The Renminbi converted from the foreign exchange capital will be kept in a designated account and if a foreign-invested enterprise needs to make further payment from such account, it still needs to provide supporting documents and go through the review process with the banks.

SAFE issued the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or Circular 16, in June 2016, which became effective simultaneously. Pursuant to Circular 16, enterprises registered in the PRC may also convert their foreign debts from foreign currency to Renminbi on a discretionary basis. Circular 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on a discretionary basis which applies to all enterprises registered in the PRC. Circular 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope or prohibited by PRC laws or regulations, while such converted Renminbi shall not be provided as loans to its non-affiliated entities. As Circular 16 is newly issued, and SAFE has not provided detailed guidelines with respect to its interpretation or implementations, it is uncertain how these rules will be interpreted and implemented.

In January 2017, SAFE promulgated the Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification, or Circular 3, which took effect on the same day. Circular 3 sets out various measures to tighten genuineness and compliance verification of cross-border transactions and cross-border capital flow, which include without limitation requiring banks to verify board resolutions, tax filing form, and audited financial statements before wiring foreign invested enterprises’ foreign exchange distribution above US$50,000, and strengthening genuineness and compliance verification of foreign direct investments. Our WFOE’s distributions to its offshore parents are required to comply with the requirements as described above.
Regulations on Stock Incentive Plans

Pursuant to the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, or Circular 7, issued by SAFE in February 2012, employees, directors, supervisors and other senior management participating in any stock incentive plan of an overseas publicly listed company who are PRC citizens or who are non-PRC citizens residing in China for a continuous period of not less than one year, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain other procedures. We and our directors, executive officers and other employees who are PRC Citizens or who reside in the PRC for a continuous period of not less than one year and who have been granted options are subject to these regulations as our company is an overseas-listed company. See “Risk Factors—Risks Related to Doing Business in China—Any failure to comply with PRC regulations regarding the registration requirements for employee stock incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.”

In addition, the SAT has issued certain circulars concerning employee share options or restricted shares. Under these circulars, the employees working in the PRC who exercise share options or are granted restricted shares will be subject to PRC individual income tax. The PRC subsidiaries of such overseas listed company have obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If the employees fail to pay or the PRC subsidiaries fail to withhold their income taxes according to relevant laws and regulations, the PRC subsidiaries may face sanctions imposed by the tax authorities or other PRC governmental authorities.

M&A Rule and Overseas Listing

Under the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rule, were jointly adopted by six PRC regulatory authorities, including CSRC, in August 2006, and effective September 2006, and most recently amended in June 2009, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic enterprise via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise. According to the M&A Rule, where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it/him, acquires a domestic company which is related to or connected with it/him, approval from MOFCOM is required.

Our PRC legal counsel, King & Wood Mallesons, has advised us that, based on its understanding of the current PRC laws and regulations, we will not be required to submit an application to the CSRC for the approval of the listing and trading of our ADSs on the Nasdaq Global Market. However, our PRC legal counsel has further advised us that there remains some uncertainty as to how the M&A Rules will be interpreted or implemented in the context of an overseas offering, and its opinions summarized above are subject to any new laws, rules and regulations or detailed implementations and interpretations in any form relating to the M&A Rules. See “Risk Factors—Risks Related to Doing Business in China—The approval of the China Securities Regulatory Commission may be required in connection with this offering, and, if required, we cannot predict whether we will be able to obtain such approval.”
MANAGEMENT

Directors and Executive Officers

The following table sets forth information regarding our directors and executive officers as of the date of this prospectus.

<table>
<thead>
<tr>
<th>Directors and Executive Officers</th>
<th>Age</th>
<th>Position/Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baoli Ma</td>
<td>42</td>
<td>Founder, Director and Chief Executive Officer</td>
</tr>
<tr>
<td>Zhe (David) Wei</td>
<td>49</td>
<td>Director</td>
</tr>
<tr>
<td>Wei Ying</td>
<td>53</td>
<td></td>
</tr>
<tr>
<td>Zhiyong (Ben) Li</td>
<td>36</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>Liang Zhao</td>
<td>37</td>
<td>Chief Risk Officer</td>
</tr>
<tr>
<td>Yuanchen (Calvin) Liu</td>
<td>38</td>
<td>Chief Technology Officer</td>
</tr>
<tr>
<td>Junchen Sun</td>
<td>31</td>
<td>Vice President, Finance</td>
</tr>
<tr>
<td>Dapeng Zhang</td>
<td>43</td>
<td>Vice President, Healthcare</td>
</tr>
<tr>
<td>Yifei You</td>
<td>24</td>
<td>Vice President, Social Business</td>
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Mr. Baoli Ma is our founder and has served as our director and chief executive officer since our inception. Prior to founding our company, Mr. Ma served as deputy director of information research at Qinhuangdao Public Security Bureau from 1997 to 2012. Mr. Ma studied public security in Qinhuangdao People’s Police School from 1992 to 1996, public security management in Chinese People’s Armed Police Force Academy from 2002 to 2003, and received his bachelor of laws degree in public security management from People’s Public Security University of China in 2006. Mr. Ma is currently attending “Lakeside University,” a senior executive training program founded by Jack Ma, founder of Alibaba Group.

Mr. Zhe (David) Wei has served as our director since June 2016. Mr. Wei has over 20 years of experience in both investment and operational management in China. Prior to launching Vision Knight Capital, a private equity investment fund, in 2011, Mr. Wei served for five years as an executive director and the chief executive officer of Alibaba.com Limited, a leading worldwide wholesale e-commerce company wholly owned by the Alibaba Group. Mr. Wei was the president, from 2002 to 2006, and chief financial officer, from 2000 to 2002, of B&Q China, a subsidiary of Kingfisher PLC, a leading home improvement retailer in Europe and Asia. From 2003 to 2006, Mr. Wei was also the chief representative for Kingfisher’s China sourcing office, Kingfisher Asia Limited. Mr. Wei currently serves as a non-executive director of Informa PLC (LON: INF), a non-executive director of Zhong Ao Home Group Limited (HKSE: 01538), an executive director of Zall Smart Commerce Group Ltd. (HKSE: 02098), a non-executive director at JNBY Design Limited (HKSE: 03306), an independent director of Leju Holdings Limited (NYSE: LEJU), an independent director of OneSmart International Education Group Limited (NYSE: ONE), and directors of several private companies. Mr. Wei received his bachelor’s degree in international business management from Shanghai International Studies University in 1993 and EMBA degree from London Business School in 1998.

Mr. Wei Ying has served as our director since November 2017. Mr. Ying is currently a managing director of CDH Investments. Prior to joining CDH Investments, Mr. Ying was a vice president of China Water Affairs Group Limited from February 2007 to March 2009 and president and executive director of China Plant Development Holdings Limited from July 2008 to July 2009. Prior to this, Mr. Ying served as an executive director of China Resources Textiles (Holding) Co., Ltd. Mr. Ying currently serves as non-executive director for several Hong Kong listed companies, such as CHTC Fong’s International Company Limited (HKSE: 0641), Fountain Set (Holdings) Limited (HKSE: 0420), and Zhongsheng Group Holdings Limited (HKSE: 0881). Mr. Ying currently also serves as a director of Yunji Inc. (Nasdaq: YJ). Mr. Ying received his bachelor’s degree in accounting from Zhejiang Gongshang University and an MBA from University of San Francisco.

Mr. Zhiyong (Ben) Li has served as our chief financial officer since June 2019. Prior to joining us, Mr. Li served multiple positions in GDS Holdings Limited (Nasdaq: GDS) from 2007 to 2019, with the last position...
Mr. Li worked as an associate in PricewaterhouseCoopers Zhong Tian LLP, Beijing Branch from 2005 to 2007. Mr. Li received his bachelor’s degree in national economic management from Renmin University of China in 2005.

Mr. Liang Zhao joined our company since April 2015 and has served as our chief risk officer since October 2017. Prior to joining us, Mr. Zhao was an entrepreneur and founded a business providing pet related services from 2011 to 2015. Mr. Zhao worked as a manager in Phoenix New Media Ltd. (NYSE: FENG) from 2004 to 2009. Mr. Zhao received his bachelor’s degree in law from China University of Political Science and Law in 2004.

Mr. Yuanchen (Calvin) Liu has served as our chief technology officer since March 2014. Prior to joining us, Mr. Liu served as a research and development manager at Baidu, Inc. (Nasdaq: BIDU), Beijing office from 2007 to 2014. Mr. Liu worked as a software engineer at Sina Corporation (Nasdaq: SINA), Beijing office from 2005 to 2007. Mr. Liu received his bachelor’s degree in information management and information system from Jilin University in 2002, and his master’s degree in management science and engineering from Jilin University, Business School in 2005.

Mr. Junchen Sun has served as our vice president of finance since February 2017. Prior to joining us, Mr. Sun served as finance controller in MicroMedia Holdings Limited from 2015 to 2017. Mr. Sun worked as a senior associate in PricewaterhouseCoopers Zhong Tian LLP, Tianjin Branch, Tianjin from 2011 to 2015. Mr. Sun received his bachelor’s degree in accounting from Tianjin University of Finance and Economics in 2011 and master’s degree in business administration from Peking University in 2018.

Dr. Dapeng Zhang joined our company in June 2018 and has served as our vice president, healthcare since June 2019. Prior to joining us, Dr. Zhang served multiple positions in National Center for AIDS/STD Control and Prevention (NCAIDS) and the China Center for Disease Control and Prevention (CDC) from 2002 to 2018, with the last position held as deputy director of division of communication and cooperation from 2014 to 2018. Dr. Zhang received his bachelor’s degree in preventive medicine from Shandong Medical University in 1999, master’s degree in epidemiology and biostatistics from China Center for Disease Control and Prevention in 2002 and doctoral degree in epidemiology from the Adelaide University of Australia in 2008.

Mr. Yifei You joined our company in June 2018 and has served as our vice president, social business since June 2019. Mr. You received his bachelor’s degree in financial management from University of International Business and Economics in 2017, and his master’s degree in management from London Business School in 2018.

Employment Agreements and Indemnification Agreements

We have entered into employment agreements with each of our executive officers. Under these agreements, each of our executive officers is employed for a specified time period. We may terminate employment for cause, at any time, for certain acts of the executive officer, such as continued failure to satisfactorily perform, willful misconduct or gross negligence in the performance of agreed duties, conviction or entry of a guilty or nolo contendere plea of any felony or any misdemeanor involving moral turpitude, or dishonest act that results in material to our detriment or material of the employment agreement. We may also terminate an executive officer’s employment without cause upon 60-day advance written notice. In such case of termination by us, we will provide severance payments to the executive officer as may be agreed between the executive officer and us. The executive officer may resign at any time with a 60-day advance written notice.

Each executive officer has agreed to hold, both during and after the termination or expiry of his or her employment agreement, in strict confidence and not to use, except as required in the performance of his or her duties in connection with the employment or pursuant to applicable law, any of our confidential information or trade secrets, any confidential information or trade secrets of our clients or prospective clients, or the confidential or proprietary information of any third party received by us and for which we have confidential obligations. The
executive officers have also agreed to disclose in confidence to us all inventions, designs and trade secrets which they conceive, develop or reduce to practice during the executive officer’s employment with us and to assign all right, title and interest in them to us, and assist us in obtaining and enforcing patents, copyrights and other legal rights for these inventions, designs and trade secrets.

In addition, each executive officer has agreed to be bound by non-competition and non-solicitation restrictions during the term of his or her employment and typically for one year following the last date of employment. Specifically, each executive officer has agreed not to (i) solicit from any customer doing business with us during the effective term of the employment agreement business of the same or of a similar nature to our business; (ii) solicit from any of our known potential customer business of the same or of a similar nature to that which has been the subject of our known written or oral bid, offer or proposal, or of substantial preparation with a view to making such a bid, proposal or offer; (iii) solicit the employment or services of, or hire or engage, any person who is known to be employed or engaged by us; or (iv) otherwise interfere with our business or accounts, including, but not limited to, with respect to any relationship or agreement between any vendor or supplier and us.

We have also entered into indemnification agreements with each of our directors and executive officers. Under these agreements, we agree to indemnify our directors and executive officers against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being a director or officer of our company.

Board of Directors

Our board of directors will consist of directors upon the SEC’s declaration of effectiveness of our registration statement on Form F-1, in which this prospectus is included. A director who is in any way, whether directly or indirectly, interested in a contract or transaction or proposed contract or transaction with our company is required to declare the nature of his interest at a meeting of our directors. Subject to the Nasdaq Global Market rules and disqualification by the chairman of the relevant board meeting, a director may vote in respect of any contract or transaction or proposed contract or transaction notwithstanding that he may be interested therein, and if he does so his vote shall be counted and he shall be counted in the quorum at any meeting of our directors at which any such contract or transaction or proposed contract or transaction is considered. Our directors may exercise all the powers of our company to raise or borrow money and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof, to issue debentures, debenture stock, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of our company or of any third party.

Committees of the Board of Directors

We will establish three committees under the board of directors immediately upon the effectiveness of our registration statement on Form F-1, in which this prospectus is included: an audit committee, a compensation committee and a nominating and corporate governance committee. We will adopt a charter for each of the three committees. Each committee’s members and functions are described below.

Audit Committee. Our audit committee will consist of , , and . will be the chairman of our audit committee. We have determined that , , and each satisfies the “independence” requirements of Rule 5605(c)(2) of the Nasdaq Stock Market Rules and meet the independence standards under Rule 10A-3 under the Exchange Act, as amended. We have determined that qualifies as an “audit committee financial expert.” The audit committee will oversee our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee will be responsible for, among other things:

• appointing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
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- reviewing with the independent auditors any audit problems or difficulties and management’s response;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing the adequacy and effectiveness of our accounting and internal control policies and procedures and any steps taken to monitor and control major financial risk exposures;
- reviewing and approving all proposed related party transactions;
- meeting separately and periodically with management and the independent auditors; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Compensation Committee. Our compensation committee will consist of , , and . will be the chairman of our compensation committee. We have determined that , , and satisfy the “independence” requirements of Rule 5605(a)(2) of the Nasdaq Stock Market Rules. The compensation committee will assist the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee will be responsible for, among other things:

- reviewing and approving, or recommending to the board for its approval, the compensation for our chief executive officer and other executive officers;
- reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors;
- reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements; and
- selecting compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person’s independence from management.

Nominating and Corporate Governance Committee. Our nominating and corporate governance committee will consist of , , and . will be the chairman of our nominating and corporate governance committee. We have determined that , , and satisfy the “independence” requirements of Rule 5605(a)(2) of the Nasdaq Stock Market Rules. The nominating and corporate governance committee will assist the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee will be responsible for, among other things:

- selecting and recommending to the board nominees for election by the shareholders or appointment by the board;
- reviewing annually with the board the current composition of the board with regards to characteristics such as independence, knowledge, skills, experience and diversity;
- making recommendations on the frequency and structure of board meetings and monitoring the functioning of the committees of the board; and
- advising the board periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken.

Duties of Directors

Under Cayman Islands law, our directors owe fiduciary duties to our company, including a duty of loyalty, a duty to act honestly, and a duty to act in what they consider in good faith to be in our best interests. Our directors
must also exercise their powers only for a proper purpose. Our directors also have a duty to exercise skills they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than what may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care, and these authorities are likely to be followed in the Cayman Islands. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time, and the class rights vested thereunder in the holders of the shares. Our company has the right to seek damages if a duty owed by our directors is breached. A shareholder may in certain limited circumstances have the right to seek damages in our name if a duty owed by the directors is breached.

Our board of directors has all the powers necessary for managing, and for directing and supervising, our business affairs. The functions and powers of our board of directors include, among others:

- convening shareholders' annual general meetings and reporting its work to shareholders at such meetings;
- declaring dividends and distributions;
- appointing officers and determining the term of office of the officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the transfer of shares in our company, including the registration of such shares in our share register.

Terms of Directors and Officers

[Our directors may be elected by an ordinary resolution of our shareholders. Alternatively, our board of directors may, by the affirmative vote of a simple majority of the directors present and voting at a board meeting appoint any person as a director to fill a casual vacancy on our board or as an addition to the existing board. Our directors are not automatically subject to a term of office and hold office until such time as they are removed from office by an ordinary resolution of our shareholders. In addition, a director will cease to be a director if he (i) becomes bankrupt or makes any arrangement or composition with his creditors; (ii) dies or is found to be or becomes of unsound mind; (iii) resigns his office by notice in writing; (iv) without special leave of absence from our board, is absent from meetings of our board for three consecutive meetings and our board resolves that his office be vacated; or (v) is removed from office pursuant to any other provision of our articles of association.]

Our officers are appointed by and serve at the discretion of the board of directors, and may be removed by our board of directors.

Compensation of Directors and Executive Officers

For the fiscal year ended December 31, 2019, we paid an aggregate of RMB6.2 million (US$0.9 million) in cash to our executive officers, and we did not pay any compensation to our non-executive directors. We have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors. Our WFOE and our VIE are required by law to make contributions equal to certain percentages of each employee’s salary for his or her pension insurance, medical insurance, unemployment insurance and other statutory benefits and a housing provident fund. For share incentive grants to our officers and directors, see “—2015 Stock Incentive Plan.”

2015 Stock Incentive Plan

We adopted the 2015 Plan for purposes of granting share-based compensation awards to employees, directors and consultants to incentivize their performance and align their interests with ours. Under the 2015 Plan, the maximum number of shares which may be issued pursuant to all awards is 1,551,724. As of the date of this prospectus, options to purchase a total of 1,061,042 ordinary shares were outstanding under the 2015 Plan.
The following paragraphs summarize the terms of the 2015 Plan.

**Type of Awards.** The 2015 Plan permits the awards of options or other right or benefit under the 2015 Plan.

**Plan Administration.** Our board of directors or a committee appointed by the board of directors or any director appointed will administer the 2015 Plan. The plan administrator will determine, among others, the participants to receive awards, the type and number of awards to be granted to each participant, and the terms and conditions of each grant.

**Award Agreement.** Awards granted under the 2015 Plan are evidenced by an award agreement that sets forth the terms, conditions and limitations for each award, which may include the term of the award, the provisions applicable in the event that the grantee’s employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award.

**Eligibility.** We may grant awards to our employees, directors and consultants.

**Vesting Schedule.** In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

**Exercise of Options.** The plan administrator determines the exercise price for each award, which is stated in the relevant award agreement. Options that are vested and exercisable will terminate if they are not exercised prior to the time as the plan administrator determines at the time of grant. However, the maximum exercisable term is ten years from the date of effectiveness of the 2015 Plan.

**Transfer Restrictions.** Awards shall be transferable (i) by will and by the laws of descent and distribution and (ii) during the lifetime of the grantee, and to the extent and in the manner authorized by the plan administrator. The grantee may designate one or more beneficiaries of the grantee’s award in the event of the grantee’s death on a beneficiary designation form provided by the administrator.

**Termination and Amendment of the 2015 Plan.** Unless terminated earlier, the 2015 Plan has a term of ten years from the date of effectiveness of the 2015 Plan. Our board of directors has the authority to terminate, amend, suspend or modify the 2015 Plan in accordance with our articles of association. However, without the prior written consent of the participant, no such action may adversely affect in any material way any award previously granted pursuant to the 2015 Plan.
The following table summarizes, as of the date of this prospectus, the outstanding options that we granted to our directors and executive officers in the aggregate:

<table>
<thead>
<tr>
<th>Name</th>
<th>Ordinary Shares Underlying Outstanding Options</th>
<th>Exercise Price ($/Share)</th>
<th>Grant Date</th>
<th>Expiration Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baoli Ma</td>
<td>165,557</td>
<td>0.01</td>
<td>July 1, 2018</td>
<td>March 10, 2025</td>
</tr>
<tr>
<td></td>
<td>*</td>
<td>0.01</td>
<td>August 8, 2017</td>
<td>March 10, 2025</td>
</tr>
<tr>
<td></td>
<td>*</td>
<td>0.01</td>
<td>May 8, 2017</td>
<td>March 10, 2025</td>
</tr>
<tr>
<td>Zhiyong (Ben) Li</td>
<td>*</td>
<td>0.01</td>
<td>June 25, 2019</td>
<td>March 10, 2025</td>
</tr>
<tr>
<td>Liang Zhao</td>
<td>*</td>
<td>0.01</td>
<td>August 16, 2016</td>
<td>March 10, 2025</td>
</tr>
<tr>
<td></td>
<td>*</td>
<td>0.01</td>
<td>August 8, 2017</td>
<td>March 10, 2025</td>
</tr>
<tr>
<td></td>
<td>*</td>
<td>0.01</td>
<td>February 8, 2018</td>
<td>March 10, 2025</td>
</tr>
<tr>
<td>Yuanchen (Calvin) Liu</td>
<td>*</td>
<td>0.01</td>
<td>August 16, 2016</td>
<td>March 10, 2025</td>
</tr>
<tr>
<td></td>
<td>*</td>
<td>0.01</td>
<td>May 8, 2017</td>
<td>March 10, 2025</td>
</tr>
<tr>
<td></td>
<td>*</td>
<td>0.01</td>
<td>August 8, 2017</td>
<td>March 10, 2025</td>
</tr>
<tr>
<td>Junchen Sun</td>
<td>*</td>
<td>0.01</td>
<td>February 13, 2017</td>
<td>March 10, 2025</td>
</tr>
<tr>
<td></td>
<td>*</td>
<td>0.01</td>
<td>July 1, 2018</td>
<td>March 10, 2025</td>
</tr>
<tr>
<td>Dapeng Zhang</td>
<td>*</td>
<td>0.01</td>
<td>February 1, 2019</td>
<td>March 10, 2025</td>
</tr>
<tr>
<td>Yifei You</td>
<td>*</td>
<td>0.01</td>
<td>June 12, 2019</td>
<td>March 10, 2025</td>
</tr>
<tr>
<td>Other employees</td>
<td>582,682</td>
<td>0.01</td>
<td>April 1, 2015 to June 25, 2019</td>
<td>March 10, 2025</td>
</tr>
<tr>
<td>Total</td>
<td>1,061,042</td>
<td>0.01</td>
<td>April 1, 2015 to June 25, 2019</td>
<td>March 10, 2025</td>
</tr>
</tbody>
</table>

* Less than 1% of our total ordinary shares outstanding assuming conversion of all preferred shares into ordinary shares.
PRINCIPAL SHAREHOLDERS

Except as specifically noted, the following table sets forth information with respect to the beneficial ownership of our ordinary shares on an as-converted basis as of the date of this prospectus by:

• each of our directors and executive officers; and
• each person known to us to own beneficially 5% or more of our ordinary shares.

The calculations in the table below are based on 15,175,670 ordinary shares on an as-converted basis outstanding as of the date of this prospectus and 15,737,867 ordinary shares outstanding immediately after the completion of this offering, assuming the underwriters do not exercise their over-allotment option.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days, including through the exercise of any option, warrant, or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

### Directors and Executive Officers**:

<table>
<thead>
<tr>
<th>Name</th>
<th>Ordinary Shares Beneficially Owned Prior to This Offering</th>
<th>Ordinary Shares Beneficially Owned After This Offering</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baoli Ma</td>
<td>5,677,857</td>
<td>37.4</td>
</tr>
<tr>
<td>Zhe (David) Wei</td>
<td>667,497</td>
<td>4.4</td>
</tr>
<tr>
<td>Wei Ying</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zhiyong (Ben) Li</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liang Zhao</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Yuanchen (Calvin) Liu</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Junchen Sun</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Dapeng Zhang</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yifei You</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Directors and Executive Officers as a Group</td>
<td>6,475,167</td>
<td>42.7</td>
</tr>
</tbody>
</table>

### Principal Shareholders:

<table>
<thead>
<tr>
<th>Name</th>
<th>Ordinary Shares Beneficially Owned Prior to This Offering</th>
<th>Ordinary Shares Beneficially Owned After This Offering</th>
</tr>
</thead>
<tbody>
<tr>
<td>BlueCity Media Limited</td>
<td>5,614,840</td>
<td>37.0</td>
</tr>
<tr>
<td>Shunwei Ventures III Limited</td>
<td>1,862,069</td>
<td>12.3</td>
</tr>
<tr>
<td>CDH entities***</td>
<td>1,423,186</td>
<td>9.4</td>
</tr>
<tr>
<td>Liberty Hero Limited</td>
<td>1,150,862</td>
<td>7.6</td>
</tr>
<tr>
<td>Crystal Stream Fund, L.P.</td>
<td>870,941</td>
<td>5.7</td>
</tr>
<tr>
<td>NewQuest Asia Investments III Limited</td>
<td>772,074</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Notes:

* Less than 1% of our total ordinary shares on an as-converted basis outstanding as of the date of this prospectus.

** Except as otherwise indicated below, the business address of our directors and executive officers is Block 2 Tower B Room 028, No 22 Pingguo Shequ, Bai Zi Wan Road, Chaoyang District, Beijing, China. The business address of Zhe Wei is Unit 3301-3305, Kerry Parkside office, 1155 Fangdian Road, Shanghai, China. The business address of Wei Ying is 3F, K.stone Building, No.1 East Yan’an Road, Huangpu District, Shanghai, China.

*** CDH entities include Rainbow Rain Limited and Aviator D, L.P.

(1) Represents 5,677,857 issuable upon the conversion of (i) 5,614,840 ordinary shares held by BlueCity Media Limited, a British Virgin Islands company, and (ii) 63,017 ordinary shares issuable upon the exercise of options exercisable within 60 days after the date of this prospectus held by Baoli Ma.

(2) Represents 667,497 ordinary shares issuable upon the conversion of 667,497 Series C-1 preferred shares held by Arcadia Investment Limited, a British Virgin Islands company. Each of Vision Knight Capital (China) Fund II, L.P., a Cayman Islands limited partnership, and Vision Knight Capital (China) Entrepreneur Fund II, L.P., a Cayman Islands limited partnership, holds 95.45% and 4.55% equity.
We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

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RELATED PARTY TRANSACTIONS

Contractual Arrangements with Our Consolidated Affiliated Entities and Their Respective Shareholders

See “Corporate History and Structure.”

Shareholders Agreement

See “Description of Share Capital—History of Securities Issuances.”

Private Placements

See “Description of Share Capital—History of Securities Issuances.”

Employment Agreements and Indemnification Agreements

See “Management—Employment Agreements and Indemnification Agreements.”

Share Incentive Plan

See “Management—2015 Stock Incentive Plan.”

Other Related Party Transactions

On April 12, 2018, our board of directors approved a repurchase of 288,240 unvested share options from BlueCity Media Limited, an affiliate of Mr. Baoli Ma, our founder and chief executive officer, at a purchase price of US$8 million. As of the date of this prospectus, we have made full payment.

During the year ended December 31, 2019, we made interest-free loans in aggregate principal amount of RMB8.0 million (US$1.1 million) to Mr. Baoli Ma. All the loans were repaid by Mr. Baoli Ma during the year ended December 31, 2019.
DESCRIPTION OF SHARE CAPITAL

We are a Cayman Islands exempted company with limited liability and our affairs are governed by our memorandum and articles of association, as amended and restated from time to time, the Companies Law of the Cayman Islands, which is referred to as the Companies Law below, and the common law of the Cayman.

As of the date of this prospectus, our authorized share capital is US$50,000 divided into 489,944,215 ordinary shares with a par value of US$0.0001 each and 10,055,785 preferred shares with a par value of US$0.0001 each, of which 1,439,102 preferred shares are designated as Series A preferred shares with a par value of US$0.0001 each, 1,891,291 preferred shares are designated as Series A-1 preferred shares with a par value of US$0.0001 each, 1,862,069 preferred shares are designated as Series B preferred shares with a par value of US$0.0001 each, 1,246,621 preferred shares are designated as Series C preferred shares with a par value of US$0.0001 each, 977,961 preferred shares are designated as Series C-1 preferred shares with a par value of US$0.0001 each, and 2,522,101 preferred shares are designated as Series C-2 preferred shares with a par value of US$0.0001 each. As of the date of this prospectus, 5,614,840 ordinary shares, 1,439,102 Series A preferred shares, 1,891,291 Series A-1 preferred shares, 1,862,069 Series B preferred shares, 1,246,621 Series C preferred shares, 977,961 Series C-1 preferred shares, and 2,143,786 Series D preferred shares are issued and outstanding. All of our issued and outstanding shares are fully paid.

Immediately prior to the completion of this offering, preferred shares that are issued and outstanding will be converted into ordinary shares by way of re-designation on a one-for-one basis, and our authorized share capital will be divided into ordinary shares with a nominal or par value of US$ each.

Our Post-Offering Memorandum and Articles of Association

We will adopt an amended and restated memorandum and articles of association, which will become effective and replace our current amended and restated memorandum and articles of association in its entirety immediately prior to the completion of this offering. The following are summaries of material provisions of the post-offering memorandum and articles of association and of the Companies Law, insofar as they relate to the material terms of our ordinary shares.

Objects of Our Company. Under our post-offering memorandum and articles of association, the objects of our company are unrestricted and we have the full power and authority to carry out any object not prohibited by the laws of the Cayman Islands.

Ordinary Shares. Our ordinary shares are issued in registered form and are issued when registered in our register of members. We may not issue shares to bearer. Our shareholders who are nonresidents of the Cayman Islands may freely hold and vote their shares.

Dividends. Our directors may from time to time declare dividends (including interim dividends) and other distributions on our shares in issue and authorize payment of the same out of the funds of our company lawfully available therefor. In addition, our shareholders may declare dividends by ordinary resolution, but no dividend shall exceed the amount recommended by our directors. Our post-offering memorandum and articles of association provide that dividends may be declared and paid out of the funds of our Company lawfully available therefor. Under the laws of the Cayman Islands, our company may pay a dividend out of either profit or share premium account; provided that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business.

Voting Rights. Voting at any meeting of shareholders is by show of hands unless a poll is demanded. A poll may be demanded by the chairman of such meeting or any one shareholder holding not less than [10]% of the votes attaching to the shares present in person or by proxy.
An ordinary resolution to be passed at a meeting by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast at a meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes cast attaching to the issued and outstanding ordinary shares at a meeting. A special resolution will be required for important matters such as a change of name or making changes to our post-offering memorandum and articles of association. Our shareholders may, among other things, divide or combine their shares by ordinary resolution.

**General Meetings of Shareholders.** As a Cayman Islands exempted company, we are not obliged by the Companies Law to call shareholders’ annual general meetings. Our post-offering memorandum and articles of association provide that we may (but are not obliged to) in each year hold a general meeting as our annual general meeting in which case we shall specify the meeting as such in the notices calling it, and the annual general meeting shall be held at such time and place as may be determined by our directors.

Shareholders’ general meetings may be convened by the chairman of our board of directors or by our directors (acting by a resolution of our board). Advance notice of at least seven days is required for the convening of our annual general shareholders’ meeting (if any) and any other general meeting of our shareholders. [A quorum required for any general meeting of shareholders consists of, at the time when the meeting proceeds to business, one or more of our shareholders holding shares which carry in aggregate (or representing by proxy) not less than one-third of all votes attaching to all of our shares in issue and entitled to vote at such general meeting.]

The Companies Law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company’s articles of association. Our post-offering memorandum and articles of association provide that upon the requisition of any one or more of our shareholders holding shares which carry in aggregate not less than one-third of all votes attaching to all issued and outstanding shares of our company entitled to vote at general meetings, our board will convene an extraordinary general meeting and put the resolutions so requisitioned to a vote at such meeting. However, our post-offering memorandum and articles of association do not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders.

**Transfer of Ordinary Shares.** Subject to the restrictions set out below, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board of directors.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which we have a lien. Our board of directors may also decline to register any transfer of any ordinary share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of ordinary shares;
- the instrument of transfer is properly stamped, if required;
- in the case of a transfer to joint holders, the number of joint holders to whom the ordinary share is to be transferred does not exceed four; and
- a fee of such maximum sum as the Nasdaq Global Market may determine to be payable or such lesser sum as our directors may from time to time require is paid to us in respect thereof.

If our directors refuse to register a transfer they shall, within [three months] after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.
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The registration of transfers may, on ten calendar days’ notice being given by advertisement in such one or more newspapers, by electronic means or by any other means in accordance with the rules of the Nasdaq Global Market be suspended and the register closed at such times and for such periods as our board of directors may from time to time determine; provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year as our board may determine.

Liquidation. On the winding up of our company, if the assets available for distribution amongst our shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus shall be distributed amongst our shareholders in proportion to the par value of the shares held by them at the commencement of the winding up, subject to a deduction from those shares in respect of which there are monies due, of all monies payable to our company for unpaid calls or otherwise. If our assets available for distribution are insufficient to repay all of the paid-up capital, such the assets will be distributed so that, as nearly as may be, the losses are borne by our shareholders in proportion to the par value of the shares held by them.

Calls on Shares and Forfeiture of Shares. Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders [at least 14 days] prior to the specified time and place of payment. The shares that have been called upon and remain unpaid are subject to forfeiture.

Redemption, Repurchase and Surrender of Shares. We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders of these shares, on such terms and in such manner as may be determined, before the issue of such shares, by our board of directors or by our shareholders by special resolution. Our company may also repurchase any of our shares on such terms and in such manner as have been approved by our board of directors or by an ordinary resolution of our shareholders. Under the Companies Law, the redemption or repurchase of any share may be paid out of our Company’s profits or out of the proceeds of a new issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if our company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Law no such share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding or (c) if the company has commenced liquidation. In addition, our company may accept the surrender of any fully paid share for no consideration.

Variations of Rights of Shares. Whenever the capital of our company is divided into different classes the rights attached to any such class may, subject to any rights or restrictions for the time being attached to any class, only be materially adversely varied with the consent in writing of the holders of all of the issued shares of that class or with the sanction of an ordinary resolution passed at a separate meeting of the holders of the shares of that class. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, subject to any rights or restrictions for the time being attached to the shares of that class, be deemed to be materially adversely varied by the creation, allotment or issue of further shares ranking pari passu with or subsequent to them or the redemption or purchase of any shares of any class by our company. The rights of the holders of shares shall not be deemed to be materially adversely varied by the creation or issue of shares with preferred or other rights including, without limitation, the creation of shares with enhanced or weighted voting rights.

Issuance of Additional Shares. Our post-offering memorandum and articles of association authorizes our board of directors to issue additional ordinary shares from time to time as our board of directors shall determine, to the extent of available authorized but unissued shares.

Our post-offering memorandum and articles of association also authorizes our board of directors to establish from time to time one or more series of preference shares and to determine, with respect to any series of preference shares, the terms and rights of that series, including:

- the designation of the series;
the number of shares of the series;
the dividend rights, dividend rates, conversion rights, voting rights; and
the rights and terms of redemption and liquidation preferences.

Our board of directors may issue preference shares without action by our shareholders to the extent authorized but unissued. Issuance of these shares may dilute the voting power of holders of ordinary shares.

Inspection of Books and Records. Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, we intend to provide our shareholders with annual audited financial statements. See “Where You Can Find Additional Information.”

Anti-Takeover Provisions. Some provisions of our post-offering memorandum and articles of association may discourage, delay or prevent a change of control of our company or management that shareholders may consider favorable, including provisions that:
- authorize our board of directors to issue preference shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preference shares without any further vote or action by our shareholders; and
- limit the ability of shareholders to requisition and convene general meetings of shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our post-offering memorandum and articles of association for a proper purpose and for what they believe in good faith to be in the best interests of our company.

Exempted Company. We are an exempted company with limited liability under the Companies Law. The Companies Law distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except that an exempted company:
- does not have to file an annual return of its shareholders with the Registrar of Companies;
- is not required to open its register of members for inspection;
- does not have to hold an annual general meeting;
- may issue negotiable or bearer shares or shares with no par value;
- may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- may register as a limited duration company; and
- may register as a segregated portfolio company.

“Limited liability” means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

Differences in Corporate Law

[The Companies Law is derived, to a large extent, from the older Companies Acts of England but does not follow recent English statutory enactments and accordingly there are significant differences between the]
Companies Law and the current Companies Act of England. In addition, the Companies Law differs from laws applicable to U.S. corporations and their shareholders. Set forth below is a summary of certain significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the United States and their shareholders.

Mergers and Similar Arrangements. The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (i) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (ii) a “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of the shareholders of each constituent company, and (b) such other authorization, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

A merger between a Cayman parent company and its Cayman subsidiary or subsidiaries does not require authorization by a resolution of shareholders of that Cayman subsidiary if a copy of the plan of merger is given to every member of that Cayman subsidiary to be merged unless that member agrees otherwise. For this purpose a company is a “parent” of a subsidiary if it holds issued shares that together represent at least ninety percent (90%) of the votes at a general meeting of the subsidiary.

The consent of each holder of a fixed or floating security interest over a constituent company is required unless this requirement is waived by a court in the Cayman Islands.

Save in certain limited circumstances, a shareholder of a Cayman constituent company who dissents from the merger or consolidation is entitled to payment of the fair value of his shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) upon dissenting to the merger or consolidation, provide the dissenting shareholder complies strictly with the procedures set out in the Companies Law. The exercise of dissenter rights will preclude the exercise by the dissenting shareholder of any other rights to which he or she might otherwise be entitled by virtue of holding shares, save for the right to seek relief on the grounds that the merger or consolidation is void or unlawful.

Separate from the statutory provisions relating to mergers and consolidations, the Companies Law also contains statutory provisions that facilitate the reconstruction and amalgamation of companies by way of schemes of arrangement, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the required majority vote have been met;
- the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class;
the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and

the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

The Companies Law also contains a statutory power of compulsory acquisition which may facilitate the “squeeze out” of dissentient minority shareholder upon a tender offer. When a tender offer is made and accepted by holders of 90.0% of the shares affected within four months, the offeror may, within a two-month period commencing on the expiration of such four month period, require the holders of the remaining shares to transfer such shares to the offeror on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud, bad faith or collusion.

If an arrangement and reconstruction by way of scheme of arrangement is thus approved and sanctioned, or if a tender offer is made and accepted in accordance with the foregoing statutory procedures, a dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

Shareholders’ Suits. In principle, we will normally be the proper plaintiff to sue for a wrong done to us as a company, and as a general rule a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, the Cayman Islands court can be expected to follow and apply the common law principles (namely the rule in Foss v. Harbottle and the exceptions thereto) so that a non-controlling shareholder may be permitted to commence a class action against or derivative actions in the name of the company to challenge actions where:

- a company acts or proposes to act illegally or ultra vires;
- the act complained of, although not ultra vires, could only be effected duly if authorized by more than a simple majority vote that has not been obtained; and
- those who control the company are perpetrating a “fraud on the minority.”

Indemnification of Directors and Executive Officers and Limitation of Liability. Cayman Islands law does not limit the extent to which a company’s memorandum and articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our post-offering memorandum and articles of association provide that we shall indemnify our officers and directors against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained by such directors or officer, other than by reason of such person’s dishonesty, willful default or fraud, in or about the conduct of our company’s business or affairs (including as a result of any mistake of judgment) or in the execution or discharge of his duties, powers, authorities or discretions, including, without prejudice to the generality of the foregoing, any costs, expenses, losses or liabilities incurred by such director or officer in defending (whether successfully or otherwise) any civil proceedings concerning our company or its affairs in any court whether in the Cayman Islands or elsewhere. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation.

In addition, we have entered into indemnification agreements with our directors and executive officers that provide such persons with additional indemnification beyond that provided in our post-offering memorandum and articles of association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that in the opinion of
the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

**Directors’ Fiduciary Duties.** Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director acts in a manner he reasonably believes to be in the best interests of the corporation. He must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, the director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore it is considered that he owes the following duties to the company—a duty to act bona fide in the best interests of the company, a duty not to make a profit based on his position as director (unless the company permits him to do so), a duty not to put himself in a position where the interests of the company conflict with his personal interest or his duty to a third party, and a duty to exercise powers for the purpose for which such powers were intended. A director of a Cayman Islands company owes to the company a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands.

**Shareholder Action by Written Consent.** Under the Delaware General Corporation Law, a corporation may eliminate the right of shareholders to act by written consent by amendment to its certificate of incorporation. Cayman Islands law and our post-offering memorandum and articles of association provide that our shareholders may approve corporate matters by way of a unanimous written resolution signed by or on behalf of each shareholder who would have been entitled to vote on such matter at a general meeting without a meeting being held.

**Shareholder Proposals.** Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders; provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

The Companies Law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company’s articles of association. Our post-offering memorandum and articles of association allow any one or more of our shareholders holding shares which carry in aggregate not less than [one-third] of the total number votes attaching to all issued and the outstanding shares of our company entitled to vote at general meetings to requisition an extraordinary general meeting of our shareholders, in which case our board is obliged to convene an extraordinary general meeting and to put the resolutions so requisitioned to a vote at such meeting. Other than this right to requisition a shareholders’ meeting, our post-offering memorandum and articles of association do not provide our shareholders with any other right to put proposals before annual general meetings.
meetings or extraordinary general meetings. As an exempted Cayman Islands company, we are not obliged by law to call shareholders’ annual general meetings.

**Cumulative Voting.** Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation’s certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder’s voting power with respect to electing such director. There are no prohibitions in relation to cumulative voting under the laws of the Cayman Islands but our post-offering memorandum and articles of association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

**Removal of Directors.** Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the issued and outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our post-offering memorandum and articles of association, directors may be removed with or without cause, by an ordinary resolution of our shareholders. A director will also cease to be a director if he (i) becomes bankrupt or makes any arrangement or composition with his creditors; (ii) dies or is found to be or becomes of unsound mind; (iii) resigns his office by notice in writing; (iv) without special leave of absence from our board, is absent from meetings of our board for three consecutive meetings and our board resolves that his office be vacated; or (v) is removed from office pursuant to any other provision of our articles of association.

**Transactions with Interested Shareholders.** The Delaware General Corporation Law contains a business combination statute applicable to Delaware corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an “interested shareholder” for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target’s outstanding voting share within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target’s board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into bona fide in the best interests of the company and not with the effect of constituting a fraud on the minority shareholders.

**Dissolution; Winding up.** Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation’s outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by either an order of the courts of the Cayman Islands or by the board of directors.

Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its members or, if the company is unable to pay its debts as they fall due, by an ordinary resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.
Variation of Rights of Shares. Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under our post-offering memorandum and articles of association, if our share capital is divided into more than one class of shares, the rights attached to any such class may, subject to any rights or restrictions for the time being attached to any class, only be materially adversely varied with the consent in writing of the holders of all of the issued shares of that class or with the sanction of an ordinary resolution passed at a separate meeting of the holders of the shares of that class. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, subject to any rights or restrictions for the time being attached to the shares of that class, be deemed to be materially adversely varied by the creation, allotment or issue of further shares ranking pari passu with or subsequent to them or the redemption or purchase of any shares of any class by our company. The rights of the holders of shares shall not be deemed to be materially adversely varied by the creation or issue of shares with preferred or other rights including, without limitation, the creation of shares with enhanced or weighted voting rights.

Amendment of Governing Documents. Under the Delaware General Corporation Law, a corporation’s governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under the Companies Law and our post-offering memorandum and articles of association, our memorandum and articles of association may only be amended by a special resolution of our shareholders.

Rights of Non-resident or Foreign Shareholders. There are no limitations imposed by our post-offering memorandum and articles of association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our post-offering memorandum and articles of association governing the ownership threshold above which shareholder ownership must be disclosed.

History of Securities Issuances

The following is a summary of our securities issuances in the past three years.

Ordinary Shares

On July 3, 2017, we issued 7,004 ordinary shares to BlueCity Media Limited at a purchase price of approximately US$0.2 million.

On November 2, 2017, we issued 19,440 ordinary shares to BlueCity Media Limited at a purchase price of approximately US$0.5 million.

Preferred Shares

On July 3, 2017, we issued 360,300 Series D preferred shares to Primevera Inc. at a purchase price of approximately US$10.0 million. On November 2, 2017, we issued 540,451 Series D preferred shares to Rainbow Rain Limited at a purchase price of approximately US$15.0 million. On November 11, 2017, we issued 180,150 Series D preferred shares to Formosa Opportunity Limited-UG Formosa Patriot Fund, for and on behalf of UG Formosa Patriot Fund at a purchase price of approximately US$5.0 million. On January 26, 2018, we issued 540,450 Series D preferred shares to Rainbow Rain Limited at a purchase price of approximately US$15.0 million. On April 12, 2018, we issued 180,150 Series D preferred shares to Formosa Opportunity Limited-UG Formosa Patriot Fund, for and on behalf of UG Formosa Patriot Fund at a purchase price of approximately US$5.0 million. On September 26, 2018, we issued 216,180 Series D preferred shares to Aviator D, L.P. at a purchase price of US$6.0 million. On November 1, 2018, we issued 126,105 Series D preferred shares to Aviator D, L.P. at a purchase price of US$3.5 million.

On April 12, 2018, we issued 180,150 and 108,090 Series A preferred shares to FH Priolo Limited and FH Saltator Limited at a purchase price of US$5.0 million and US$3.0 million, respectively.

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Grants of Options

We have granted options to purchase our ordinary shares to certain of our directors, executive officers and employees. See “Management—2015 Stock Incentive Plan.”

Shareholders Agreement

We entered into our fifth amended and restated shareholders agreement on November 2, 2017 with our shareholders, which consist of holders of ordinary shares and preferred shares. The shareholders agreement provides for certain shareholders’ rights, including information and inspection rights, right of participation, right of first refusal and co-sale rights, and contains provisions governing our board of directors and other corporate governance matters. The special rights, as well as the corporate governance provisions, will automatically terminate upon the completion of this offering.

Registration Rights

We have granted certain registration rights to our shareholders. Set forth below is a description of the registration rights granted under the shareholders agreement.

Demand Registration Rights. At any time after the earlier of (i) forty eight (48) months after January 26, 2018 or (ii) any time following the effectiveness of a registration statement filed with the SEC for a qualified initial public offering, holders of at least 30% of the registrable securities (including preferred shares and ordinary shares issued upon conversion of preferred shares) then outstanding have the right to demand that we file a registration statement of all registrable securities that the holders request to be registered and included in such registration by written notice. Other than required by the underwriter(s) in connection with our initial public offering, at least twenty-five percent (25%) of the registrable securities requested by the holders to be included in such underwriting and registration shall be so included. We have the right to defer filing of a registration statement for a period of not more than 90 days after the receipt of the request of the initiating holders if we furnish to the holders requesting registration a certificate signed by our president or chief executive officer stating that in the good faith judgment of our board of directors, it would be materially detrimental to us and our shareholders for such registration statement to be filed at such time. However, we cannot exercise the deferral right more than once in any twelve-month period. We are obligated to effect no more than two demand registrations, other than demand registration to be effected pursuant to registration statement on Form F-3, for which an unlimited number of demand registrations shall be permitted.

Piggyback Registration Rights. If we propose to file a registration statement for a public offering of our securities, we must offer shareholders an opportunity to include in the registration all or any part of the registrable securities held by such holders. If the managing underwriters of any underwritten offering determine in good faith that marketing factors require a limitation of the number of shares to be underwritten, and the number of shares that may be included in the registration and the underwriting shall be allocated (i) first, to us, (ii) second, to each holder requesting inclusion of its registrable securities in such registration statement on a pro rata basis based on the total number of registrable securities then held by each such holder; provided that at least twenty-five percent (25%) of the registrable securities requested by the holders to be included in the underwriting and registration shall be so included and all shares that are not registrable securities shall first be excluded from such registration and underwriting before any registrable securities are so excluded.

Form F-3 Registration Rights. Our shareholders may request us in writing to file an unlimited number of registration statements on Form F-3. We shall effect the registration of the securities on Form F-3 as soon as practicable, except in certain circumstances.

Expenses of Registration. We will bear all registration expenses. Each holder participating in a registration as mentioned above will bear such holder’s proportionate share (based on the total number of shares sold in such registration other than for the account of us) of all selling expenses to other amounts payable to underwriter(s) or brokers, in connection with such offering by the holders.
Termination of Registration Rights. Our shareholders’ registration rights will terminate upon the earlier of (i) after five years of the consummation of a qualified IPO, or (ii) all such registrable securities proposed to be sold by a shareholder may then be sold under Rule 144 promulgated under the Securities Act.
American Depositary Shares

, as depositary, will register and deliver the ADSs. Each ADS will represent ownership of ordinary shares deposited with the custodian, as agent of the depositary, under the deposit agreement among ourselves, the depositary and yourself as an ADR holder. In the future, each ADS will also represent ownership of any other securities, cash or other property which may be held by the depositary but which have not been distributed directly to you. Unless specifically requested by you, all ADSs will be issued on the books of our depositary in book-entry form and periodic statements will be mailed to you which reflect your ownership interest in such ADSs. In our description, references to American depositary receipts or ADRs shall include the statements you will receive which reflect your ownership of ADSs.

The depositary’s office is located at .

You may hold ADSs either directly or indirectly through your broker or other financial institution. If you hold ADSs directly, by having an ADS registered in your name on the books of the depositary, you are an ADR holder. This description assumes you hold your ADSs directly. If you hold the ADSs through your broker or financial institution nominee, you must rely on the procedures of such broker or financial institution to assert the rights of an ADR holder described in this section. You should consult with your broker or financial institution to find out what those procedures are.

As an ADR holder, we will not treat you as a shareholder of ours and you will not have any shareholder rights. Cayman Islands law governs shareholder rights. Because the depositary or its nominee will be the shareholder of record for the shares represented by all outstanding ADSs, shareholder rights rest with such record holder. Your rights are those of an ADR holder. Such rights derive from the terms of the deposit agreement to be entered into among us, the depositary and all registered holders from time to time of ADSs issued under the deposit agreement. The obligations of the depositary and its agents are also set out in the deposit agreement. Because the depositary or its nominee will actually be the registered owner of the shares, you must rely on it to exercise the rights of a shareholder on your behalf. The deposit agreement and the ADSs are governed by New York law.

The following is a summary of what we believe to be the material terms of the deposit agreement. Notwithstanding this, because it is a summary, it may not contain all the information that you may otherwise deem important. For more complete information, you should read the entire deposit agreement and the form of ADR which contains the terms of your ADSs. You can read a copy of the deposit agreement which is filed as an exhibit to the registration statement of which this prospectus forms apart. You may also find the registration statement and the attached deposit agreement on the SEC’s website at http://www.sec.gov.

Dividends and Other Distributions

How will I receive dividends and other distributions on the shares underlying my ADSs?

We may make various types of distributions with respect to our securities. The depositary has agreed that, to the extent practicable, it will pay to you the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, after converting any cash received into U.S. dollars and, in all cases, making any necessary deductions provided for in the deposit agreement. You will receive these distributions in proportion to the number of underlying securities that your ADSs represent.

Except as stated below, the depositary will deliver such distributions to ADR holders in proportion to their interests in the following manner:

- **Cash.** The depositary will distribute any U.S. dollars available to it resulting from a cash dividend or other cash distribution or the net proceeds of sales of any other distribution or portion thereof to the
extent applicable), on an averaged or other practicable basis, subject to (i) appropriate adjustments for taxes withheld, (ii) such distribution being impermissible or impracticable with respect to certain registered ADR holders, and (iii) deduction of the depositary’s expenses in (1) converting any foreign currency to U.S. dollars to the extent that it determines that such conversion may be made on a reasonable basis, (2) transferring foreign currency or U.S. dollars to the United States by such means as the depositary may determine to the extent that it determines that such transfer may be made on a reasonable basis, (3) obtaining any approval or license of any governmental authority required for such conversion or transfer, which is obtainable at a reasonable cost and within a reasonable time and (4) making any sale by public or private means in any commercially reasonable manner. The depositary will hold any cash amounts it is unable to distribute in a non-interest-bearing account for the benefit of the applicable holders and beneficial owners of ADSs until the distribution can be effected or the funds that the depositary holds must be escheated as unclaimed property in accordance with the laws of the relevant states of the United States. If exchange rates fluctuate during a time when the depositary cannot convert a foreign currency, you may lose some or all of the value of the distribution.

- **Shares**. In the case of a distribution in shares, the depositary will issue additional ADRs to evidence the number of ADSs representing such shares. Only whole ADSs will be issued. Any shares which would result in fractional ADSs will be sold and the net proceeds will be distributed in the same manner as cash to the ADR holders entitled thereto.

- **Rights to Receive Additional Shares**. In the case of a distribution of rights to subscribe for additional shares or other rights, if we provide evidence satisfactory to the depositary that it may lawfully distribute such rights, the depositary will distribute warrants or other instruments in the discretion of the depositary representing such rights. However, if we do not furnish such evidence, the depositary may:
  - sell such rights if practicable and distribute the net proceeds in the same manner as cash to the ADR holders entitled thereto; or
  - if it is not practicable to sell such rights, do nothing and allow such rights to lapse, in which case ADR holders will receive nothing.

We have no obligation to file a registration statement under the Securities Act in order to make any rights available to ADR holders.

- **Other Distributions**. In the case of a distribution of securities or property other than those described above, the depositary may either (i) distribute such securities or property in any manner it deems equitable and practicable or (ii) to the extent the depositary deems distribution of such securities or property not to be equitable and practicable, sell such securities or property and distribute any net proceeds in the same way it distributes cash.

If the depositary determines that any distribution described above is not practicable with respect to any specific registered ADR holder, the depositary may choose any method of distribution that it deems practicable for such ADR holder, including the distribution of foreign currency, securities or property, or it may retain such items, without paying interest on or investing them, on behalf of the ADR holder as deposited securities, in which case the ADSs will also represent the retained items.

Any U.S. dollars will be distributed by checks drawn on a bank in the United States for whole dollars and cents. Fractional cents will be withheld without liability and dealt with by the depositary in accordance with its then current practices.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADR holders.
There can be no assurance that the depositary will be able to convert any currency at a specified exchange rate or sell any property, rights, shares or other securities at a specified price, nor that any of such transactions can be completed within a specified time period.

**Deposit, Withdrawal and Cancellation**

**How does the depositary issue ADSs?**

The depositary will issue ADSs if you or your broker deposit shares or evidence of rights to receive shares with the custodian and pay the fees and expenses owing to the depositary in connection with such issuance. In the case of the ADSs to be issued under this prospectus, we will arrange with the underwriters named herein to deposit such shares.

Shares deposited in the future with the custodian must be accompanied by certain delivery documentation and shall, at the time of such deposit, be registered in the name of , as depositary for the benefit of holders of ADRs or in such other name as the depositary shall direct.

The custodian will hold all deposited shares (including those being deposited by or on our behalf in connection with the offering to which this prospectus relates) for the account of the depositary. ADR holders thus have no direct ownership interest in the shares and only have such rights as are contained in the deposit agreement. The custodian will also hold any additional securities, property and cash received on or in substitution for the deposited shares. The deposited shares and any such additional items are referred to as “deposited securities.”

Upon each deposit of shares, receipt of related delivery documentation and compliance with the other provisions of the deposit agreement, including the payment of the fees and charges of the depositary and any taxes or other fees or charges owing, the depositary will issue an ADR or ADRs in the name or upon the order of the person entitled thereto evidencing the number of ADSs to which such person is entitled. All of the ADSs issued will, unless specifically requested to the contrary, be part of the depositary’s direct registration system, and a registered holder will receive periodic statements from the depositary which will show the number of ADSs registered in such holder’s name. An ADR holder can request that the ADSs not be held through the depositary’s direct registration system and that a certificated ADR be issued.

**How do ADR holders cancel an ADS and obtain deposited securities?**

When you turn in your ADR certificate at the depositary’s office, or when you provide proper instructions and documentation in the case of direct registration ADSs, the depositary will, upon payment of certain applicable fees, charges and taxes, deliver the underlying shares to you or upon your written order. At your risk, expense and request, the depositary may deliver deposited securities at such other place as you may request.

The depositary may only restrict the withdrawal of deposited securities in connection with:

- temporary delays caused by closing our transfer books or those of the depositary or the deposit of shares in connection with voting at a shareholders’ meeting, or the payment of dividends;
- the payment of fees, taxes and similar charges; or
- compliance with any U.S. or foreign laws or governmental regulations relating to the ADRs or to the withdrawal of deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

**Record Dates**

The depositary may, after consultation with us if practicable, fix record dates for the determination of the registered ADR holders who will be entitled (or obligated, as the case may be):

- to receive any distribution on or in respect of shares,
Voting Rights

How do I vote?

If you are an ADR holder and the depositary asks you to provide it with voting instructions, you may instruct the depositary how to exercise the voting rights for the shares which underlie your ADSs. As soon as practicable after receiving notice of any meeting or solicitation of consents or proxies from us, the depositary will distribute to the registered ADR holders a notice stating such information as is contained in the voting materials received by the depositary and describing how you may instruct the depositary to exercise the voting rights for the shares which underlie your ADSs. For instructions to be valid, the depositary must receive them in the manner and on or before the date specified. No voting instructions may be deemed given to the depositary to give a discretionary proxy to a person designated by us if no instructions are received by the depositary from you on or before the response date established by the depositary. The depositary will try, as far as is practical, subject to the provisions of and governing the underlying shares or other deposited securities, to vote to or to have its agents vote the shares or other deposited securities as you instruct. The depositary will only vote or attempt to vote as you instruct. The depositary will not itself exercise any voting discretion. Furthermore, neither the depositary nor its agents are responsible for any failure to carry out any voting instructions, for the manner in which any vote is cast or for the effect of any vote. Notwithstanding anything contained in the deposit agreement or any ADR, the depositary may, to the extent not prohibited by law or regulations, or by the requirements of the stock exchange on which the ADSs are listed, in lieu of distribution of the materials provided to the depositary in connection with any meeting of, or solicitation of consents or proxies from, holders of deposited securities, distribute to the registered holders of ADRs a notice that provides such holders with, or otherwise publicizes to such holders, instructions on how to retrieve such materials or receive such materials upon request (i.e., by reference to a website containing the materials for retrieval or a contact for requesting copies of the materials).

Under our constituent documents the depositary would be able to provide us with voting instructions without having to personally attend meetings in person or by proxy. Such voting instructions may be provided to us via facsimile, email, mail, courier or other recognized form of delivery and we agree to accept any such delivery so long as it is timely received prior to the meeting. We will endeavor to provide the depositary with written notice of each meeting of shareholders promptly after determining the date of such meeting so as to enable it to solicit and receive voting instructions. In general, the depositary will require that voting instructions be received by the depositary no less than five business days prior to the date of each meeting of shareholders. [Under the post-offering memorandum and articles of association that we expect to adopt, the minimum notice period required to convene a general meeting is seven days. The depositary may not have sufficient time to solicit voting instructions, and it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote.]

[Notwithstanding the above, we have advised the depositary that under our constituent documents, each as in effect as of the date of the deposit agreement, voting at any meeting of shareholders is by show of hands unless a poll is (before or on the declaration of the results of the show of hands) demanded.] In the event that voting on any resolution or matter is conducted on a show of hands basis in accordance with our constituent documents, the depositary will refrain from voting and the voting instructions (or the deemed voting instructions, as set out above) received by the depositary from holders shall lapse. The depositary will not demand a poll or join in demanding a poll, whether or not requested to do so by holders of ADSs.
There is no guarantee that you will receive voting materials in time to instruct the depositary to vote and it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote.

Reports and Other Communications

Will ADR holders be able to view our reports?

The depositary will make available for inspection by ADR holders at the offices of the depositary and the custodian the deposit agreement, the provisions of or governing deposited securities, and any written communications from us which are both received by the custodian or its nominee as a holder of deposited securities and made generally available to the holders of deposited securities.

Additionally, if we make any written communications generally available to holders of our shares, and we furnish copies thereof (or English translations or summaries) to the depositary, it will distribute the same to registered ADR holders.

Fees and Expenses

What fees and expenses will I be responsible for paying?

The depositary may charge each person to whom ADSs are issued, including, without limitation, issuances against deposits of shares, issuances in respect of share distributions, rights and other distributions, issuances pursuant to a stock dividend or stock split declared by us or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADSs or deposited securities, and each person surrendering ADSs for withdrawal of deposited securities or whose ADRs are cancelled or reduced for any other reason, $ for each ADSs (or any portion thereof) issued, delivered, reduced, cancelled or surrendered, as the case may be. The depositary may sell (by public or private sale) sufficient securities and property received in respect of a share distribution, rights and/or other distribution prior to such deposit to pay such charge.

The following additional charges shall be incurred by the ADR holders, by any party depositing or withdrawing shares or by any party surrendering ADSs or to whom ADSs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by us or an exchange of stock regarding the ADRs or the deposited securities or a distribution of ADSs), whichever is applicable:

- a fee of $ per ADR or ADRs for transfers of certificated or direct registration ADRs;
- a fee of up to $ per ADS for any cash distribution made pursuant to the deposit agreement;
- a fee of up to $ per ADS per calendar year (or portion thereof) for services performed by the depositary in administering the ADRs (which fee may be charged on a periodic basis during each calendar year and shall be assessed against holders of ADRs as of the record date or record dates set by the depositary during each calendar year and shall be payable in the manner described in the next succeeding provision);
- reimbursement of such fees, charges and expenses as are incurred by the depositary and/or any of the depositary’s agents (including, without limitation, the custodian and expenses incurred on behalf of holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in connection with the servicing of the shares or other deposited securities, the delivery of deposited securities or otherwise in connection with the depositary’s or its custodian’s compliance with applicable law, rule or regulation (which charge shall be assessed on a proportionate basis against holders as of the record date or dates set by the depositary and shall be payable at the sole discretion of the depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions).
• a fee for the distribution of securities (or the sale of securities in connection with a distribution), such fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities (treating all such securities as if they were shares and there would be a fee of five cents per ADS outstanding);
• stock transfer or other taxes and other governmental charges;
• cable, telex and facsimile transmission and delivery charges incurred at your request in connection with the deposit or delivery of shares;
• transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities; and
• expenses of the depositary in connection with the conversion of foreign currency into U.S. dollars.

We will pay all other charges and expenses of the depositary and any agent of the depositary (except the custodian) pursuant to agreements from time to time between us and the depositary. The charges described above may be amended from time to time by agreement between us and the depositary.

Our depositary has agreed to reimburse us for certain expenses we incur that are related to establishment and maintenance of the ADR program, including investor relations expenses and exchange application and listing fees. Neither the depositary nor we can determine the exact amount to be made available to us because (i) the number of ADSs that will be issued and outstanding, (ii) the level of fees to be charged to holders of ADSs and (iii) our reimbursable expenses related to the ADR program are not known at this time. The depositary collects its fees for issuance and cancellation of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions, or by directly billing investors, or by charging the book-entry system accounts of participants acting for them. The depositary will generally set off the amounts owing from distributions made to holders of ADSs. If, however, no distribution exists and payment owing is not timely received by the depositary, the depositary may refuse to provide any further services to holders that have not paid those fees and expenses owing until such fees and expenses have been paid. At the discretion of the depositary, all fees and charges owing under the deposit agreement are due in advance and/or when declared owing by the depositary.

Payment of Taxes

ADR holders must pay any tax or other governmental charge payable by the custodian or the depositary on any ADS or ADR, deposited security or distribution. If an ADR holder owes any tax or other governmental charge, the depositary may (i) deduct the amount thereof from any cash distributions, or (ii) sell deposited securities (by public or private sale) and deduct the amount owing from the net proceeds of such sale. In either case the ADR holder remains liable for any shortfall. Additionally, if any taxes or other governmental charges (including any penalties and/or interest) shall become payable by or on behalf of the custodian or the depositary with respect to any ADR, any deposited securities represented by the ADSs evidenced thereby or any distribution thereon, including, without limitation, any Chinese Enterprise Income Tax owing if the Circular Guoshuifa [2009] No. 82 issued by the Chinese State Administration of Taxation or any other circular, edict, order or ruling, as issued and as from time to time amended, is applied or otherwise, such tax or other governmental charge shall be paid by the holder thereof to the depositary. And by holding or having held an ADR the holder and all prior holders thereof, jointly and severally, agree to indemnify, defend and save harmless each of the depositary and its agents in respect thereof. If any tax or governmental charge is unpaid, the depositary may also refuse to effect any registration, registration of transfer, split-up or combination of deposited securities or withdrawal of deposited securities until such payment is made. If any tax or governmental charge is required to be withheld on any cash distribution, the depositary may deduct the amount required to be withheld from any cash distribution or, in the case of a non-cash distribution, sell the distributed property or securities (by public or private sale) to pay such taxes and distribute any remaining net proceeds to the ADR holders entitled thereto.
By holding an ADR or an interest therein, you will be agreeing to indemnify us, the depositary, its custodian and any of our or their respective directors, employees, agents and affiliates against, and hold each of them harmless from, any claims by any governmental authority with respect to taxes, additions to tax, penalties or interest arising out of any refund of taxes, reduced rate of withholding at source or other tax benefit obtained.

Reclassifications, Recapitalizations and Mergers

If we take certain actions that affect the deposited securities, including (i) any change in par value, split-up, consolidation, cancellation or other reclassification of deposited securities or (ii) any distributions not made to holders of ADRs or (iii) any recapitalization, reorganization, merger, consolidation, liquidation, receivership, bankruptcy or sale of all or substantially all of our assets, then the depositary may choose to:

• amend the form of ADR;
• distribute additional or amended ADRs;
• distribute cash, securities or other property it has received in connection with such actions;
• sell any securities or property received and distribute the proceeds as cash; or
• none of the above.

If the depositary does not choose any of the above options, any of the cash, securities or other property it receives will constitute part of the deposited securities and each ADS will then represent a proportionate interest in such property.

Amendment and Termination

How may the deposit agreement be amended?

We may agree with the depositary to amend the deposit agreement and the ADSs without your consent for any reason. ADR holders must be given at least 30 days’ notice of any amendment that imposes or increases any fees or charges (other than stock transfer or other taxes and other governmental charges, transfer or registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or otherwise prejudices any substantial existing right of ADR holders. Such notice need not describe in detail the specific amendments effectuated thereby, but must give ADR holders a means to access the text of such amendment. If an ADR holder continues to hold an ADR or ADRs after being so notified, such ADR holder is deemed to agree to such amendment and to be bound by the deposit agreement as so amended. Notwithstanding the foregoing, if any governmental body or regulatory body should adopt new laws, rules or regulations which would require amendment or supplement of the deposit agreement or the form of ADR to ensure compliance therewith, we and the depositary may amend or supplement the deposit agreement and the ADR at any time in accordance with such changed laws, rules or regulations, which amendment or supplement may take effect before a notice is given or within any other period of time as required for compliance. No amendment, however, will impair your right to surrender your ADSs and receive the underlying securities, except in order to comply with mandatory provisions of applicable law.

How may the deposit agreement be terminated?

The depositary may, and shall at our written direction, terminate the deposit agreement and the ADRs by mailing notice of such termination to the registered holders of ADRs at least 30 days prior to the date fixed in such notice for such termination; provided, however, if the depositary shall have (i) resigned as depositary under the deposit agreement, notice of such termination by the depositary shall not be provided to registered holders unless a successor depositary shall not be operating under the deposit agreement within 45 days of the date of such resignation, and (ii) been removed as depositary under the deposit agreement, notice of such termination by the depositary shall not be provided to registered holders of ADRs unless a successor depositary shall not be
operating under the deposit agreement on the 90th day after our notice of removal was first provided to the depositary. After termination, the depositary’s only responsibility will be (i) to deliver deposited securities to ADR holders who surrender their ADRs, and (ii) to hold or sell distributions received on deposited securities. As soon as practicable after the expiration of six months from the termination date, the depositary will sell the deposited securities which remain and hold the net proceeds of such sales (as long as it may lawfully do so), without liability for interest, in trust for the ADR holders who have not yet surrendered their ADRs. After making such sale, the depositary shall have no obligations except to account for such proceeds and other cash.

**Limitations on Obligations and Liability to ADS Holders**

**Limits on our obligations and the obligations of the depositary; limits on liability to ADR holders and holders of ADSs**

Prior to the issue, registration, registration of transfer, split-up, combination, or cancellation of any ADRs, or the delivery of any distribution in respect thereof, and from time to time, we or the depositary or its custodian may require:

- payment with respect thereto of (i) any stock transfer or other tax or other governmental charge, (ii) any stock transfer or registration fees in effect for the registration of transfers of shares or other deposited securities upon any applicable register and (iii) any applicable fees and expenses described in the deposit agreement;
- the production of proof satisfactory to it of (i) the identity of any signatory and genuineness of any signature and (ii) such other information, including without limitation, information as to citizenship, residence, exchange control approval, beneficial ownership of any securities, compliance with applicable law, regulations, provisions of or governing deposited securities and terms of the deposit agreement and the ADRs, as it may deem necessary or proper; and
- compliance with such regulations as the depositary may establish consistent with the deposit agreement.

The issuance of ADRs, the acceptance of deposits of shares, the registration, registration of transfer, split-up or combination of ADRs or the withdrawal of shares, may be suspended, generally or in particular instances, when the ADR register or any register for deposited securities is closed or when any such action is deemed advisable by the depositary; provided that the ability to withdrawal shares may only be limited under the following circumstances: (i) temporary delays caused by closing transfer books of the depositary or our transfer books or the deposit of shares in connection with voting at a shareholders’ meeting, or the payment of dividends, (ii) the payment of fees, taxes, and similar charges, and (iii) compliance with any laws or governmental regulations relating to ADRs or to the withdrawal of deposited securities.

The deposit agreement expressly limits the obligations and liability of the depositary, ourselves and our respective agents. Neither we nor the depositary nor any such agent will be liable if:

- any present or future law, rule, regulation, fiat, order or decree of the United States, the Cayman Islands, the People’s Republic of China or any other country, or of any governmental or regulatory authority or securities exchange or market or automated quotation system, the provisions of or governing any deposited securities, any present or future provision of our charter, any act of God, war, terrorism or other circumstance beyond our, the depositary’s or our respective agents’ control shall prevent or delay, or shall cause any of them to be subject to any civil or criminal penalty in connection with, any act which the deposit agreement or the ADRs provide shall be done or performed by us, the depositary or our respective agents (including, without limitation, voting);
- it exercises or fails to exercise discretion under the deposit agreement or the ADR;
- it performs its obligations under the deposit agreement and ADRs without gross negligence or bad faith;
Neither the depositary nor its agents have any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any deposited securities or the ADRs. We and our agents shall only be obligated to appear in, prosecute or defend any action, suit or other proceeding in respect of any deposited securities or the ADRs, which in our opinion may involve us in expense or liability, if indemnity satisfactory to us against all expense (including fees and disbursements of counsel) and liability is furnished as often as may be required. The depositary and its agents may fully respond to any and all demands or requests for information maintained by or on its behalf in connection with the deposit agreement, any registered holder or holders of ADRs, any ADRs or otherwise related to the deposit agreement or ADRs to the extent such information is requested or required by or pursuant to any lawful authority, including without limitation laws, rules, regulations, administrative or judicial process, banking, securities or other regulators. The depositary shall not be liable for the acts or omissions made by any securities depository, clearing agency or settlement system in connection with or arising out of book-entry settlement of deposited securities or otherwise. Furthermore, the depositary shall not be responsible for, and shall incur no liability in connection with or arising from, the insolvency of any custodian that is not a branch or affiliate of . The depositary and the custodian(s) may use third party delivery services and providers of information regarding matters such as pricing, proxy voting, corporate actions, class action litigation and other services in connection with the ADRs and the deposit agreement, and use local agents to provide extraordinary services such as attendance at annual meetings of issuers of securities. Although the depositary and the custodian will use reasonable care (and cause their agents to use reasonable care) in the selection and retention of such third party providers and local agents, they will not be responsible for any errors or omissions made by them in providing the relevant information or services.

Additionally, none of us, the depositary or the custodian shall be liable for the failure by any registered holder of ADRs or beneficial owner therein to obtain the benefits of credits on the basis of non-U.S. tax paid against such holder’s or beneficial owner’s income tax liability. Neither we nor the depositary shall incur any liability for any tax consequences that may be incurred by holders or beneficial owners on account of their ownership of ADRs or ADSs.

Neither the depositary nor its agents will be responsible for any failure to carry out any instructions to vote any of the deposited securities, for the manner in which any such vote is cast or for the effect of any such vote. Neither the depositary nor any of its agents shall be liable to registered holders of ADRs or beneficial owners of interests in ADSs for any indirect, special, punitive or consequential damages (including, without limitation, lost profits) of any form incurred by any person or entity, whether or not foreseeable and regardless of the type of action in which such a claim may be brought.

In the deposit agreement each party thereto (including, for avoidance of doubt, each holder and beneficial owner and/or holder of interests in ADRs) irrevocably waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in any suit, action or proceeding against the depositary and/or the company directly or indirectly arising out of or relating to the shares or other deposited securities, the ADSs or the ADRs, the deposit agreement or any transaction contemplated therein, or the breach thereof (whether based on contract, tort, common law or any other theory).

The depositary may own and deal in any class of our securities and in ADSs.

**Disclosure of Interest in ADSs**

To the extent that the provisions of or governing any deposited securities may require disclosure of or impose limits on beneficial or other ownership of deposited securities, other shares and other securities and may
provide for blocking transfer, voting or other rights to enforce such disclosure or limits, you agree to comply with all such disclosure requirements and ownership limitations and to comply with any reasonable instructions we may provide in respect thereof. We reserve the right to instruct you to deliver your ADSs for cancellation and withdrawal of the deposited securities so as to permit us to deal with you directly as a holder of shares and, by holding an ADS or an interest therein, you will be agreeing to comply with such instructions.

Books of Depositary

The depositary or its agent will maintain a register for the registration, registration of transfer, combination and split-up of ADRs, which register shall include the depositary’s direct registration system. Registered holders of ADRs may inspect such records at the depositary’s office at all reasonable times, but solely for the purpose of communicating with other holders in the interest of the business of our company or a matter relating to the deposit agreement. Such register may be closed from time to time, when deemed expedient by the depositary.

The depositary will maintain facilities for the delivery and receipt of ADRs.

Pre-release of ADSs

In its capacity as depositary, the depositary shall not lend shares or ADSs; provided, however, that the depositary may issue ADSs prior to the receipt of shares (each such transaction a "pre-release"). The depositary may receive ADSs in lieu of shares (which ADSs will promptly be canceled by the depositary upon receipt by the depositary). Each such pre-release will be subject to a written agreement whereby the person or entity (the "applicant") to whom ADSs are to be delivered (a) represents that at the time of the pre-release the applicant or its customer owns the shares that are to be delivered by the applicant under such pre-release, (b) agrees to indicate the depositary as owner of such shares in its records and to hold such shares in trust for the depositary until such shares are delivered to the depositary or the custodian, (c) unconditionally guarantees to deliver to the depositary or the custodian, as applicable, such shares, and (d) agrees to any additional restrictions or requirements that the depositary deems appropriate. Each such pre-release will be at all times fully collateralized with cash, U.S. government securities or such other collateral as the depositary deems appropriate, terminable by the depositary on not more than five (5) business days’ notice and subject to such further indemnities and credit regulations as the depositary deems appropriate. The depositary will normally limit the number of ADSs involved in such pre-release at any one time to thirty percent (30%) of the ADSs outstanding (without giving effect to pre-released ADSs outstanding), provided, however, that the depositary reserves the right to change or disregard such limit from time to time as it deems appropriate. The depositary may also set limits with respect to the number of ADSs involved in pre-release with any one person on a case-by-case basis as it deems appropriate. The depositary may retain for its own account any compensation received by it in conjunction with the foregoing. Collateral provided in connection with pre-release transactions, but not the earnings thereon, shall be held for the benefit of the registered holders of ADRs (other than the applicant).

Appointment

In the deposit agreement, each registered holder of ADRs and each person holding an interest in ADSs, upon acceptance of any ADSs (or any interest therein) issued in accordance with the terms and conditions of the deposit agreement will be deemed for all purposes to:

- be a party to and bound by the terms of the deposit agreement and the applicable ADR or ADRs, and
- appoint the depositary its attorney-in-fact, with full power to delegate, to act on its behalf and to take any and all actions contemplated in the deposit agreement and the applicable ADR or ADRs, to adopt any and all procedures necessary to comply with applicable laws and to take such action as the depositary in its sole discretion may deem necessary or appropriate to carry out the purposes of the deposit agreement and the applicable ADR and ADRs, the taking of such actions to be the conclusive determinant of the necessity and appropriateness thereof.
Governing Law

The deposit agreement and the ADRs shall be governed by and construed in accordance with the laws of the State of New York. In the deposit agreement, we have submitted to the jurisdiction of the courts of the State of New York and appointed an agent for service of process on our behalf. Notwithstanding the foregoing, any action based on the deposit agreement or the transactions contemplated thereby may be instituted by the depositary and holders in any competent court in the Cayman Islands, Hong Kong, the People’s Republic of China and/or the United States or through the commencement of an English language arbitration either in New York, New York in accordance with the Commercial Arbitration Rules of the American Arbitration Association or in Hong Kong following the arbitration rules of the United Nations Commission on International Trade Law (UNCITRAL).
SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this offering, we will have ______ ADSs outstanding, representing approximately % of our outstanding ordinary shares, assuming the underwriters do not exercise their over-allotment option. All of the ADSs sold in this offering will be freely transferable by persons other than by our “affiliates” without restriction or further registration under the Securities Act. Sales of substantial amounts of our ADSs in the public market could adversely affect prevailing market prices of our ADSs. Prior to this offering, there has been no public market for our ordinary shares or the ADSs. We intend to apply to list the ADSs on the Nasdaq Global Market, but we cannot assure you that a regular trading market will develop in the ADSs. We do not expect that a trading market will develop for our ordinary shares not represented by the ADSs.

Lock-up Agreements

We have agreed, for a period of 180 days after the date of this prospectus, [not to offer, sell, contract to sell, pledge, grant any option to purchase, make any short sale, lend or otherwise dispose of, except in this offering, any of our ordinary shares or ADSs or securities that are substantially similar to our ordinary shares or ADSs, including but not limited to any options or warrants to purchase our ordinary shares, ADSs or any securities that are convertible into or exchangeable for, or that represent the right to receive, our ordinary shares, ADSs or any such substantially similar securities (other than pursuant to employee stock option plans existing on, or upon the conversion or exchange of convertible or exchangeable securities outstanding as of, the date such lock-up agreement was executed),] without the prior written consent of the representatives of the underwriters.

Furthermore, each of our officers, directors and shareholders [and certain option holders] has also entered into a similar lock-up agreement for a period of 180 days from the date of this prospectus, subject to certain exceptions, with respect to our ordinary shares, ADSs and securities that are substantially similar to our ordinary shares or ADSs. These restrictions also apply to any ADSs acquired by our directors and executive officers in the offering pursuant to the directed share program, if any. These parties collectively own [all of] our outstanding ordinary shares, without giving effect to this offering.

[Other than this offering,] we are not aware of any plans by any significant shareholders to dispose of significant numbers of our ADSs or ordinary shares. However, one or more existing shareholders or owners of securities convertible or exchangeable into or exercisable for our ADSs or ordinary shares may dispose of significant numbers of our ADSs or ordinary shares in the future. We cannot predict what effect, if any, future sales of our ADSs or ordinary shares, or the availability of ADSs or ordinary shares for future sale, will have on the trading price of our ADSs from time to time. Sales of substantial amounts of our ADSs or ordinary shares in the public market, or the perception that these sales could occur, could adversely affect the trading price of our ADSs.

Rule 144

All of our ordinary shares that will be outstanding upon the completion of this offering, other than those ordinary shares sold in this offering, are “restricted securities” as that term is defined in Rule 144 under the Securities Act and may be sold publicly in the United States only if they are subject to an effective registration statement under the Securities Act or pursuant to an exemption from the registration requirement such as those provided by Rule 144 and Rule 701 promulgated under the Securities Act. In general, beginning 90 days after the date of this prospectus, a person who at the time of a sale is not, and has not been during the three months preceding the sale, an affiliate of ours and has beneficially owned our restricted securities for at least six months will be entitled to sell the restricted securities without registration under the Securities Act, subject only to the availability of current public information about us, and will be entitled to sell restricted securities beneficially owned for at least one year without restriction. Persons who are our affiliates and have beneficially owned our
restricted securities for at least six months may sell a number of restricted securities within any three-month period that (together with any sales aggregated with them) does not exceed the greater of the following:

- 1% of the then outstanding ordinary shares of the same class, in the form of ADSs or otherwise, which immediately after this offering will equal ordinary shares, assuming the underwriters do not exercise their over-allotment option; or
- the average weekly trading volume of our ordinary shares of the same class, in the form of ADSs or otherwise, during the four calendar weeks preceding the date on which notice of the sale is filed with the SEC.

Sales by our affiliates under Rule 144 are also subject to certain requirements relating to manner of sale, notice and the availability of current public information about us.

**Rule 701**

In general, under Rule 701 of the Securities Act as currently in effect, each of our employees, consultants or advisors who purchases our ordinary shares from us in connection with a compensatory stock plan or other written agreement executed prior to the completion of this offering is eligible to resell those ordinary shares in reliance on Rule 144, but without compliance with some of the restrictions, including the holding period, contained in Rule 144. However, the Rule 701 shares would remain subject to lock-up arrangements and would only become eligible for sale when the lock-up period expires.
TAXATION

The following summary of the material Cayman Islands, PRC and U.S. federal income tax consequences of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this registration statement, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under U.S. state and local tax laws or under the tax laws of jurisdictions other than the Cayman Islands, China and the United States.

Cayman Islands Taxation

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

Further, no stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

People's Republic of China Taxation

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

We believe that BlueCity Holdings Limited is not a PRC resident enterprise for PRC tax purposes. BlueCity Holdings Limited is not controlled by a PRC enterprise or PRC enterprise group and we do not believe that BlueCity Holdings Limited meets all of the conditions above. BlueCity Holdings Limited is a company incorporated outside the PRC. As a holding company, its key assets are its ownership interests in its subsidiaries, and its key assets are located, and its records (including the resolutions of its board of directors and the resolutions of its shareholders) are maintained, outside the PRC. For the same reasons, we believe our other entities outside of China are not PRC resident enterprises either. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.” There can be no assurance that the PRC government will ultimately take a view that is consistent with us.
If the PRC tax authorities determine that BlueCity Holdings Limited is a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises, including the holders of the ADSs. In addition, non-resident enterprise shareholders (including the ADS holders) may be subject to a 10% PRC tax on gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is treated as sourced from within the PRC. It is unclear whether our non-PRC individual shareholders (including the ADS holders) would be subject to any PRC tax on dividends or gains obtained by such non-PRC individual shareholders in the event we are determined to be a PRC resident enterprise. If any PRC tax were to apply to such dividends or gains, it would generally apply at a rate of 20%. Any PRC tax imposed on dividends or gains may be subject to reduction if a reduced rate is available under an applicable tax treaty. It is unclear whether non-PRC shareholders of BlueCity Holdings Limited would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that BlueCity Holdings Limited is treated as a PRC resident enterprise.

Provided that our Cayman Islands holding company, BlueCity Holdings Limited, is not deemed to be a PRC resident enterprise, holders of the ADSs and ordinary shares who are not PRC residents will not be subject to PRC income tax on dividends distributed by us or gains realized from the sale or other disposition of our shares or ADSs. However, under SAT Circular 7 and SAT Circular 37, where a non-resident enterprise conducts an “indirect transfer” by transferring taxable assets, including, in particular, equity interests in a PRC resident enterprise, indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise, being the transferor, or the transferee, or the PRC entity which directly owns such taxable assets may report to the relevant tax authority such indirect transfer. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. We and our non-PRC resident investors may be at risk of being required to file a return and being taxed under SAT Circular 7 and SAT Circular 37, and we may be required to expend valuable resources to comply with SAT Circular 7 and SAT Circular 37, or to establish that we should not be taxed under these circulars. See “Risk Factors—Risks Related to Doing Business in China—We face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.”

**United States Federal Income Tax Considerations**

The following discussion is a summary of U.S. federal income tax considerations generally applicable to the ownership and disposition of our ADSs or ordinary shares by a U.S. Holder (as defined below) that acquires our ADSs or ordinary shares in this offering and holds our ADSs or ordinary shares as “capital assets” (generally, property held for investment) under the U.S. Internal Revenue Code of 1986, as amended (the “Code”). This discussion is based upon existing U.S. federal tax law, which is subject to differing interpretations or change, possibly with retroactive effect. No ruling has been sought from the Internal Revenue Service (the “IRS”) with respect to any U.S. federal income tax consequences described below, and there can be no assurance that the IRS or a court will not take a contrary position. This discussion, moreover, does not address the U.S. federal estate, gift, Medicare, and alternative minimum tax considerations, or any state, local and non-U.S. tax considerations, relating to the ownership or disposition of our ADSs or ordinary shares. The following summary does not address all aspects of U.S. federal income taxation that may be important to particular investors in light of their individual circumstances or to persons in special tax situations such as:

- banks and other financial institutions;
- insurance companies;
- pension plans;
- cooperatives;
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- regulated investment companies;
- real estate investment trusts;
- broker-dealers;
- traders that elect to use a mark-to-market method of accounting;
- certain former U.S. citizens or long-term residents;
- tax-exempt entities (including private foundations);
- persons liable for alternative minimum tax;
- persons who acquire their ADSs or ordinary shares pursuant to any employee share option or otherwise as compensation;
- investors that will hold their ADSs or ordinary shares as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for U.S. federal income tax purposes;
- investors that have a functional currency other than the U.S. dollar;
- persons that actually or constructively own ADSs or ordinary shares representing 10% or more of our stock (by vote or value);
- investors required to accelerate the recognition of any item of gross income with respect to our ADSs or ordinary shares as a result of such income being recognized on an applicable financial statement; or
- partnerships or other entities taxable as partnerships for U.S. federal income tax purposes, or persons holding ADSs or ordinary shares through such entities;

all of whom may be subject to tax rules that differ significantly from those discussed below.

Each U.S. Holder is urged to consult its tax advisor regarding the application of U.S. federal taxation to its particular circumstances, and the state, local, non-U.S. and other tax considerations of the ownership and disposition of our ADSs or ordinary shares.

General

For purposes of this discussion, a “U.S. Holder” is a beneficial owner of our ADSs or ordinary shares that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created in, or organized under the laws, of the United States or any state thereof or the District of Columbia;
- an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust (A) the administration of which is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust or (B) that has otherwise validly elected to be treated as a U.S. person under the Code.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of our ADSs or ordinary shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partnerships holding our ADSs or ordinary shares and their partners are urged to consult their tax advisors regarding an investment in our ADSs or ordinary shares.
For U.S. federal income tax purposes, a U.S. Holder of ADSs generally will be treated as the beneficial owner of the underlying shares represented by the ADSs. The remainder of this discussion assumes that a U.S. Holder of our ADSs will be treated in this manner. Accordingly, deposits or withdrawals of ordinary shares for ADSs generally will not be subject to U.S. federal income tax.

**Passive Foreign Investment Company Rules**

A non-U.S. corporation, such as our company, will be classified as a PFIC for U.S. federal income tax purposes for any taxable year if either (i) 75% or more of its gross income for such year consists of certain types of “passive” income or (ii) 50% or more of the value of its assets (generally determined on the basis of a quarterly average) during such year is attributable to assets that produce or are held for the production of passive income (the “asset test”). For this purpose, cash and assets readily convertible into cash are categorized as passive assets and the company’s goodwill and other unbooked intangibles not reflected on its balance sheet are taken into account. Passive income generally includes, among other things, dividends, interest, rents, royalties, and gains from the disposition of passive assets. We will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, 25% or more (by value) of the stock.

Although the law in this regard is not entirely clear, we intend to treat our VIE (including its subsidiaries) as being owned by us for U.S. federal income tax purposes, not only because we exercise effective control over the operation of such entities but also because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their results of operations in our consolidated financial statements. If it were determined, however, that we are not the owner of our VIE for U.S. federal income tax purposes, the composition of our income and assets would change and we may be treated as a PFIC for the current taxable year and any subsequent taxable year.

Assuming that we are the owner of our VIE (including its subsidiaries) for U.S. federal income tax purposes, and based upon our current and projected income and assets, including the expected proceeds from this offering, and projections as to the market price of our ADSs immediately following this offering, we do not expect to be a PFIC for the current taxable year or the foreseeable future. However, no assurance can be given in this regard because the determination of whether we are or will become a PFIC will depend, in part, upon the composition of our income and assets. Furthermore, fluctuations in the market price of our ADSs may cause us to be classified as a PFIC for the current or future taxable years because the value of our assets for purposes of the asset test, including the value of our goodwill and other unbooked intangibles, may be determined by reference to the market price of our ADSs from time to time (which may be volatile). In estimating the value of our goodwill and other unbooked intangibles, we have taken into account our anticipated market capitalization immediately following the close of this offering. Among other matters, if our market capitalization is less than anticipated or subsequently declines, we may be or become a PFIC for the current or future taxable years. The composition of our income and assets may also be affected by how, and how quickly, we use our liquid assets and the cash raised in this offering. Under circumstances where our revenue from activities that produce passive income significantly increases relative to our revenue from activities that produce non-passive income, or where we determine not to deploy significant amounts of cash for active purposes or if it were determined that we do not own the stock of our VIE for U.S. federal income tax purposes, our risk of becoming classified as a PFIC may substantially increase. Because PFIC status is a factual determination made annually after the close of each taxable year, there can be no assurance that we will not be a PFIC for the current taxable year or any future taxable year.

If we are a PFIC for any year during which a U.S. Holder holds our ADSs or ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds our ADSs or ordinary shares, unless we were to cease to be a PFIC and the U.S. Holder were to make a “deemed sale” election with respect to the ADSs or ordinary shares.

The discussion below under “—Dividends” and “—Sale or Other Disposition” is written on the basis that we will not be or become classified as a PFIC for U.S. federal income tax purposes. The U.S. federal income tax

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rules that apply generally if we are treated as a PFIC are discussed below under “—Passive Foreign Investment Company Rules.”

**Dividends**

The gross amount of any distributions paid on our ADSs or ordinary shares (including the amount of any PRC tax withheld) out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, will generally be includible in the gross income of a U.S. Holder as dividend income on the day actually or constructively received by the U.S. Holder, in the case of ordinary shares, or by the depositary, in the case of ADSs. Because we do not intend to determine our earnings and profits on the basis of U.S. federal income tax principles, any distribution we pay will generally be treated as a “dividend” for U.S. federal income tax purposes. Dividends received on our ADSs or ordinary shares will not be eligible for the dividends received deduction allowed to corporations in respect of dividends received from U.S. corporations.

Individuals and other non-corporate U.S. Holders will be subject to tax on any such dividends at the lower capital gains tax rate applicable to “qualified dividend income,” provided that certain conditions are satisfied, including that (1) our ADSs or ordinary shares on which the dividends are paid are readily tradable on an established securities market in the United States, or, in the event that we are deemed to be a PRC resident enterprise under the PRC tax law, we are eligible for the benefit of the U.S.-PRC income tax treaty (the “Treaty”), (2) we are neither a PFIC nor treated as such with respect to a U.S. Holder (as discussed below) for the taxable year in which the dividend is paid or the preceding taxable year, and (3) certain holding period requirements are met. For this purpose, ADSs listed on the Nasdaq Global Market will generally be considered to be readily tradable on an established securities market in the United States. U.S. Holders are urged to consult their tax advisors regarding the availability of the lower rate for dividends paid with respect to our ADSs or ordinary shares. In the event that we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law (see “Taxation—People’s Republic of China Taxation”), we may be eligible for the benefits of the Treaty. If we are eligible for such benefits, dividends we pay on our ordinary shares, regardless of whether such shares are represented by the ADSs, and regardless of whether our ADSs are readily tradable on an established securities market in the United States, would be potentially eligible for the reduced rates of taxation described in the preceding paragraph.

For U.S. foreign tax credit purposes, dividends paid on our ADSs or ordinary shares generally will be treated as income from foreign sources and generally will constitute passive category income. In the event that we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law, a U.S. Holder may be subject to PRC withholding taxes on dividends paid on our ADSs or ordinary shares (see “Taxation—People’s Republic of China Taxation”). Depending on the U.S. Holder’s particular facts and circumstances and subject to a number of complex conditions and limitations, PRC withholding taxes on dividends that are non-refundable under the Treaty may be treated as foreign taxes eligible for credit against a U.S. Holder’s U.S. federal income tax liability. A U.S. Holder who does not elect to claim a foreign tax credit for foreign tax withheld may instead claim a deduction for U.S. federal income tax purposes, in respect of such withholding, but only for a year in which such holder elects to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex and U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

**Sale or Other Disposition**

A U.S. Holder will generally recognize gain or loss upon the sale or other disposition of ADSs or ordinary shares in an amount equal to the difference between the amount realized upon the disposition and the holder’s adjusted tax basis in such ADSs or ordinary shares. The gain or loss will generally be capital gain or loss. Any capital gain or loss will be long term if the ADSs or ordinary shares have been held for more than one year at the time of disposition. The deductibility of a capital loss may be subject to limitations.
Any such gain or loss that the U.S. Holder recognizes will generally be treated as U.S. source income or loss for foreign tax credit limitation purposes, which will generally limit the availability of foreign tax credits. However, in the event we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law, and if PRC tax were to be imposed on any gain from the disposition of the ADSs or ordinary shares, a U.S. Holder that is eligible for the benefits of the Treaty may elect to treat such gain as PRC source income for foreign tax credit purposes. If a U.S. Holder is not eligible for the benefits of the Treaty or fails to make the election to treat any gain as PRC source income, then such U.S. Holder may not be able to use the foreign tax credit arising from any PRC tax imposed on the disposition of the ADSs or ordinary shares unless such credit can be applied (subject to applicable limitations) against U.S. federal income tax due on other income derived from foreign sources in the same income category (generally, the passive category). Each U.S. Holder is advised to consult its tax advisor regarding the tax consequences if a foreign tax is imposed on a disposition of our ADSs or ordinary shares, including the availability of the foreign tax credit under its particular circumstances.

Passive Foreign Investment Company Considerations

If we are classified as a PFIC for any taxable year during which a U.S. Holder holds our ADSs or ordinary shares, and unless the U.S. Holder makes a mark-to-market election (as described below), the U.S. Holder will generally be subject to special tax rules on (i) any excess distribution that we make to the U.S. Holder (which generally means any distribution paid during a taxable year to a U.S. Holder that is greater than 125 percent of the average annual distributions paid to the U.S. Holder in the three preceding taxable years or, if shorter, the U.S. Holder’s holding period for the ADSs or ordinary shares), and (ii) any gain recognized on the sale or other disposition (including, under certain circumstances, a pledge) of ADSs or ordinary shares. Under the PFIC rules:

- the excess distribution or gain will be allocated ratably over the U.S. Holder’s holding period for the ADSs or ordinary shares;
- the amount allocated to the taxable year of the distribution or gain and any taxable years in the U.S. Holder’s holding period prior to the first taxable year in which we are classified as a PFIC (each, a “pre-PFIC year”), will be taxable as ordinary income; and
- the amount allocated to each prior taxable year, other than a pre-PFIC year, will be subject to tax at the highest tax rate in effect for individuals or corporations, as appropriate, for that year, increased by an additional tax equal to the interest on the resulting tax deemed deferred with respect to each such taxable year.

If we are a PFIC for any taxable year during which a U.S. Holder holds our ADSs or ordinary shares and any of our subsidiaries, our VIE or any of the subsidiaries of our VIE is also a PFIC, such U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. U.S. Holders are urged to consult their tax advisors regarding the application of the PFIC rules to any of our subsidiaries, our VIE or any of the subsidiaries of our VIE.

As an alternative to the foregoing rules, a U.S. Holder of “marketable stock” (as defined below) in a PFIC may make a mark-to-market election with respect to such stock. If a U.S. Holder makes this election with respect to our ADSs, the holder will generally (i) include as ordinary income for each taxable year that we are a PFIC the excess, if any, of the fair market value of ADSs held at the end of the taxable year over the adjusted tax basis of such ADSs and (ii) deduct as an ordinary loss the excess, if any, of the adjusted tax basis of the ADSs over the fair market value of such ADSs held at the end of the taxable year, but such deduction will only be allowed to the extent of the net amount previously included in income as a result of the mark-to-market election. If a U.S. Holder makes a mark-to-market election in respect of our ADSs and we cease to be classified as a PFIC, the holder will not be required to take into account the gain or loss described above during any period that we are not classified as a PFIC. If a U.S. Holder makes a mark-to-market election, any gain such U.S. Holder recognizes upon the sale or other disposition of our ADSs in a year when we are a PFIC
will be treated as ordinary income and any loss will be treated as ordinary loss, but such loss will only be treated as ordinary loss to the extent of the net amount previously included in income as a result of the mark-to-market election.

The mark-to-market election is available only for “marketable stock,” which is stock that is regularly traded on a qualified exchange or other market, as defined in applicable United States Treasury regulations. We expect that our ADSs, but not our ordinary shares, will be treated as marketable stock upon their listing on the Nasdaq Global Market. We anticipate that our ADSs should qualify as being regularly traded, but no assurances may be given in this regard.

Because a mark-to-market election cannot technically be made for any lower-tier PFICs that we may own, a U.S. Holder may continue to be subject to the PFIC rules with respect to such U.S. Holder’s indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes.

We do not intend to provide information necessary for U.S. Holders to make qualified electing fund elections which, if available, would result in tax treatment different from (and generally less adverse than) the general tax treatment for PFICs described above.

If a U.S. Holder owns our ADSs or ordinary shares during any taxable year that we are a PFIC, the holder must generally file an annual IRS Form 8621. You should consult your tax advisor regarding the U.S. federal income tax consequences of owning and disposing of our ADSs or ordinary shares if we are or become a PFIC.
UNDERWRITING

Under the terms and subject to the conditions in an underwriting agreement dated the date of this prospectus, the underwriters named below, for whom UBS Securities LLC, CLSA Limited and AMTD Global Markets Limited are acting as representatives, have severally agreed to purchase, and we have agreed to sell to them, severally, the number of ADSs indicated below:

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of ADSs</th>
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<tr>
<td>UBS Securities LLC</td>
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<tr>
<td>CLSA Limited</td>
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<tr>
<td>AMTD Global Markets Limited</td>
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<tr>
<td><strong>Total:</strong></td>
<td>**</td>
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</tbody>
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The underwriters and the representatives are collectively referred to as the “underwriters” and the “representatives,” respectively. The underwriters are offering the ADSs subject to their acceptance of the ADSs from us and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the ADSs offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the ADSs offered by this prospectus if any such ADSs are taken. However, the underwriters are not required to take or pay for the ADSs covered by the underwriters’ over-allotment option described below.

The underwriters initially propose to offer part of the ADSs directly to the public at the offering price listed on the cover page of this prospectus and part to certain dealers at a price that represents a concession not in excess of US$ per ADS under the initial public offering price. After the initial offering of the ADSs, the offering price and other selling terms may from time to time be varied by the representatives.

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to an additional ADSs at the public offering price listed on the cover page of this prospectus, less underwriting discounts and commissions. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the ADSs offered by this prospectus. To the extent the option is exercised, each underwriter will become obligated, subject to certain conditions, to purchase about the same percentage of the additional ADSs as the number listed next to the underwriter’s name in the preceding table bears to the total number of ADSs listed next to the names of all underwriters in the preceding table.

The following table shows the per ADS and total public offering price, underwriting discounts and commissions, and proceeds before expenses to us. These amounts are shown assuming both no exercise and full exercise of the underwriters’ option to purchase up to an additional ADSs.

<table>
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<th>Per ADS</th>
<th>No Exercise</th>
<th>Full Exercise</th>
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<tbody>
<tr>
<td>Public offering price</td>
<td>US$</td>
<td>US$</td>
<td>US$</td>
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<tr>
<td>Underwriting discounts and commissions to be paid by us:</td>
<td>US$</td>
<td>US$</td>
<td>US$</td>
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<tr>
<td>Proceeds, before expenses, to us</td>
<td>US$</td>
<td>US$</td>
<td>US$</td>
</tr>
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</table>

The estimated offering expenses payable by us, exclusive of the underwriting discounts and commissions, are approximately US$. [The underwriters have informed us that they do not intend sales to discretionary accounts to exceed 5% of the total number of ADSs offered by them].

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The underwriters are expected to make offers and sales both inside and outside the United States through their respective selling agents. Any offers or sales in the United States will be conducted by broker-dealers registered with the SEC. Each of CLSA Limited and AMTD Global Markets Limited is not a broker-dealer registered with the SEC and it may not make sales in the United States. Each of CLSA Limited and AMTD Global Markets Limited has agreed that it does not intend to, and will not, offer or sell any of our ADSs in the United States in connection with this offering.

We intend to apply for the listing of our ADSs on the Nasdaq Global Market under the trading symbol “            .”

We and all directors and officers, all existing shareholders and [certain] option holders have agreed that, without the prior written consent of the representatives on behalf of the underwriters, we and they will not, during the period ending 180 days after the date of this prospectus (the “restricted period”):

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any ordinary shares, ADSs or any securities convertible into or exercisable or exchangeable for ordinary shares or ADSs;
- file any registration statement with the Securities and Exchange Commission relating to the offering of any ordinary shares, ADSs or any securities convertible into or exercisable or exchangeable for ordinary shares or ADSs; or
- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of ordinary shares or ADSs,

whether any such transaction described above is to be settled by delivery of ordinary shares, ADSs or such other securities, in cash or otherwise. In addition, we and each such person agrees that, without the prior written consent of the representatives on behalf of the underwriters, we or such other person will not, during the restricted period, make any demand for, or exercise any right with respect to, the registration of any ordinary shares, ADSs or any security convertible into or exercisable or exchangeable for ordinary shares or ADSs.

The restrictions described in the preceding paragraph are subject to certain exceptions.

The representatives, in their sole discretion, may release the ordinary shares, ADSs and other securities subject to the lock-up agreements described above in whole or in part at any time.

In order to facilitate the offering of the ADSs, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the ADSs. Specifically, the underwriters may sell more ADSs than they are obligated to purchase under the underwriting agreement, creating a short position. A short sale is covered if the short position is no greater than the number of ADSs available for purchase by the underwriters under the over-allotment option. The underwriters can close out a covered short sale by exercising the over-allotment option or purchasing ADSs in the open market. In determining the source of shares to close out a covered short sale, the underwriters will consider, among other things, the open market price of shares compared to the price available under the over-allotment option. The underwriters can also sell ADSs in excess of the over-allotment option, creating a naked short position. The underwriters must close out any naked short position by purchasing ADSs in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the ADSs in the open market after pricing that could adversely affect investors who purchase in this offering. As an additional means of facilitating this offering, the underwriters may bid for, and purchase, ADSs in the open market to stabilize the price of the ADSs. Finally, the underwriters may reclaim selling concessions allowed to an underwriter or a dealer for distributing the ADSs in this offering, if the syndicate repurchases previously distributed ADSs to cover syndicate short positions or to stabilize the price of the ADSs. These activities may raise or maintain the market price of the ADSs above independent market levels or prevent or retard a decline in the market price of the ADSs. The underwriters are not required to engage in these activities and may end any of these activities at any time.
We and the underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act.

A prospectus in electronic format may be made available on websites maintained by one or more underwriters, or selling group members, if any, participating in this offering. The representatives may agree to allocate a number of ADSs to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the representatives to underwriters that may make Internet distributions on the same basis as other allocations.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for us, for which they received or will receive customary fees and expenses.

In addition, in the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve our securities and instruments. The underwriters and their respective affiliates may also make investment recommendations or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long or short positions in such securities and instruments.

The address of UBS Securities LLC is 1285 Avenue of the Americas, New York, NY 10019, United States. The address of CLSA Limited is 18/F, One Pacific Place, 88 Queensway, Hong Kong. The address of AMTD Global Markets Limited is 23/F-25/F, Nexxus Building, 41 Connaught Road, Central, Hong Kong.

Pricing of the Offering

Prior to this offering, there has been no public market for our ordinary shares or ADSs. The initial public offering price was determined by negotiations between us and the representatives. Among the factors considered in determining the initial public offering price were our future prospects and those of our industry in general, our sales, earnings and certain other financial and operating information in recent periods, and the price-earnings ratios, price-sales ratios, market prices of securities, and certain financial and operating information of companies engaged in activities similar to ours.

[Directed Share Program

At our request, the underwriters have reserved up to % of the ADSs to be issued by us and offered by this prospectus for sale, at the initial public offering price, to some of our existing shareholders and business associates and related persons. The number of ADSs available for sale to the general public will be reduced to the extent these individuals purchase such reserved ADSs. Any reserved ADSs that are not so purchased will be offered by the underwriters to the general public on the same basis as the other ADSs offered by this prospectus.]

Selling Restrictions

No action may be taken in any jurisdiction other than the United States that would permit a public offering of the ADSs or the possession, circulation or distribution of this prospectus in any jurisdiction where action for that purpose is required. Accordingly, the ADSs may not be offered or sold, directly or indirectly, and neither the prospectus nor any other offering material or advertisements in connection with the ADSs may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable laws, rules and regulations of any such country or jurisdiction.
Australia

This document has not been lodged with the Australian Securities & Investments Commission and is only directed to certain categories of exempt persons. Accordingly, if you receive this document in Australia:

(a) you confirm and warrant that you are either:
   (i) “sophisticated investor” under section 708(8)(a) or (b) of the Corporations Act 2001 (Cth) of Australia, or the Corporations Act;
   (ii) “sophisticated investor” under section 708(8)(c) or (d) of the Corporations Act and that you have provided an accountant’s certificate to the company which complies with the requirements of section 708(8)(c)(i) or (ii) of the Corporations Act and related regulations before the offer has been made;
   (iii) person associated with the company under section 708(12) of the Corporations Act; or
   (iv) “professional investor” within the meaning of section 708(11)(a) or (b) of the Corporations Act;

and to the extent that you are unable to confirm or warrant that you are an exempt sophisticated investor, associated person or professional investor under the Corporations Act, any offer made to you under this document is void and incapable of acceptance;

(b) you warrant and agree that you will not offer any of the ADSs issued to you pursuant to this document for resale in Australia within 12 months of those ADSs being issued unless any such resale offer is exempt from the requirement to issue a disclosure document under section 708 of the Corporations Act.

Canada

The ADSs may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the ADSs must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (“NI 33-105”), the underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Cayman Islands

This prospectus does not constitute an invitation or offer to the public in the Cayman Islands of the ADSs, whether by way of sale or subscription. The underwriters have not offered or sold, and will not offer or sell, directly or indirectly, any ADSs in the Cayman Islands.

Dubai International Finance Center

This document relates to an Exempt Offer, as defined in the Offered Securities Rules module of the DFSA Rulebook, or the OSR, in accordance with the Offered Securities Rules of the Dubai Financial Services
Authority. This document is intended for distribution only to Persons, as defined in the OSR, of a type specified in those rules. It must not be delivered to, or relied on by, any other Person. The Dubai Financial Services Authority has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The Dubai Financial Services Authority has not approved this document nor taken steps to verify the information set out in it, and has no responsibility for it. The ADSs to which this document relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the ADSs offered should conduct their own due diligence on the ADSs. If you do not understand the contents of this document you should consult an authorized financial adviser.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”) an offer to the public of any shares which are the subject of the offering contemplated by this prospectus may not be made in that Relevant Member State unless the prospectus has been approved by the competent authority in such Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that an offer to the public in that Relevant Member State of any shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

• to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
• to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
• by the underwriters to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than “qualified investors” as defined in the Prospectus Directive) subject to obtaining the prior consent of the representatives for any such offer; or
• in any other circumstances falling within Article 3(2) of the Prospectus Directive; provided that no such offer of shares shall result in a requirement for the publication by us or any representative of a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

Any person making or intending to make any offer of shares within the EEA or in the United Kingdom should only do so in circumstances in which no obligation arises for us or any of the underwriters to produce a prospectus for such offer. Neither we nor the underwriters have authorized, nor do they authorize, the making of any offer of shares through any financial intermediary, other than offers made by the underwriters which constitute the final offering of shares contemplated in this prospectus.

For the purposes of this provision, and your representation below, the expression an “offer to the public” in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any shares to be offered so as to enable an investor to decide to purchase any shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression “Prospectus Directive” means Directive 2003/71/EC (including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.
Each person in a Relevant Member State who receives any communication in respect of, or who acquires any shares under, the offer of shares contemplated by this prospectus will be deemed to have represented, warranted and agreed to and with us and each underwriter that:

- it is a “qualified investor” within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and
- in the case of any shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the shares acquired by it in the offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than “qualified investors” (as defined in the Prospectus Directive), or in circumstances in which the prior consent of the representatives has been given to the offer or resale; or (ii) where shares have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those shares to it is not treated under the Prospectus Directive as having been made to such persons.

**Hong Kong**

The ADSs may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap.32, Laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the ADSs may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to ADSs which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder.

**Japan**

The ADSs have not been and will not be registered under the Financial Instruments and Exchange Law of Japan, and ADSs will not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to any exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

**Korea**

The ADSs may not be offered, sold and delivered directly or indirectly, or offered or sold to any person for reoffering or resale, directly or indirectly, in Korea or to any resident of Korea except pursuant to the applicable laws and regulations of Korea, including the Korea Securities and Exchange Act and the Foreign Exchange Transaction Law and the decrees and regulations thereunder. The ADSs have not been registered with the Financial Services Commission of Korea for public offering in Korea. Furthermore, the ADSs may not be resold to Korean residents unless the purchaser of the ADSs complies with all applicable regulatory requirements (including but not limited to government approval requirements under the Foreign Exchange Transaction Law and its subordinate decrees and regulations) in connection with the purchase of the ADSs.
Kuwait

Unless all necessary approvals from the Kuwait Ministry of Commerce and Industry required by Law No. 31/1990 “Regulating the Negotiation of Securities and Establishment of Investment Funds,” its Executive Regulations and the various Ministerial Orders issued pursuant thereto or in connection therewith, have been given in relation to the marketing and sale of the ADSs, these may not be marketed, offered for sale, nor sold in the State of Kuwait. Neither this prospectus (including any related document), nor any of the information contained therein is intended to lead to the conclusion of any contract of whatsoever nature within Kuwait.

Malaysia

No prospectus or other offering material or document in connection with the offer and sale of the securities has been or will be registered with the Securities Commission of Malaysia, or Commission, for the Commission’s approval pursuant to the Capital Markets and Services Act 2007. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the securities may not be circulated or distributed, nor may the securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Malaysia other than (i) a closed end fund approved by the Commission; (ii) a holder of a Capital Markets Services License; (iii) a person who acquires the securities as principal, if the offer is on terms that the securities may only be acquired at a consideration of not less than RM250,000 (or its equivalent in foreign currencies) for each transaction; (iv) an individual whose total net personal assets or total net joint assets with his or her spouse exceeds RM3 million (or its equivalent in foreign currencies), excluding the value of the primary residence of the individual; (v) an individual who has a gross annual income exceeding RM300,000 (or its equivalent in foreign currencies) per annum in the preceding twelve months; (vi) an individual who, jointly with his or her spouse, has a gross annual income of RM400,000 (or its equivalent in foreign currencies), per annum in the preceding twelve months; (vii) a corporation with total net assets exceeding RM10 million (or its equivalent in foreign currencies) based on the last audited accounts; (viii) a partnership with total net assets exceeding RM10 million (or its equivalent in foreign currencies); (ix) a bank licensee or insurance licensee as defined in the Labuan Financial Services and Securities Act 2010; (x) an Islamic bank licensee or takaful licensee as defined in the Labuan Financial Services and Securities Act 2010; and (xi) any other person as may be specified by the Commission; provided that, in the each of the preceding categories (i) to (xi), the distribution of the securities is made by a holder of a Capital Markets Services License who carries on the business of dealing in securities. The distribution in Malaysia of this prospectus is subject to Malaysian laws. This prospectus does not constitute and may not be used for the purpose of public offering or an issue, offer for subscription or purchase, invitation to subscribe for or purchase any securities requiring the registration of a prospectus with the Commission under the Capital Markets and Services Act 2007.

People’s Republic of China

This prospectus has not been and will not be circulated or distributed in the PRC, and ADSs may not be offered or sold, and will not be offered or sold to any person for re-offering or resale, directly or indirectly, to any resident of the PRC except pursuant to applicable laws and regulations of the PRC.

Qatar

In the State of Qatar, the offer contained herein is made on an exclusive basis to the specifically intended recipient thereof, upon that person’s request and initiative, for personal use only and shall in no way be construed as a general offer for the sale of securities to the public or an attempt to do business as a bank, an investment company or otherwise in the State of Qatar. This prospectus and the underlying securities have not been approved or licensed by the Qatar Central Bank or the Qatar Financial Centre Regulatory Authority or any other regulator in the State of Qatar. The information contained in this prospectus shall only be shared with any third parties in Qatar on a need to know basis for the purpose of evaluating the contained offer. Any distribution of this prospectus by the recipient to third parties in Qatar beyond the terms hereof is not permitted and shall be at the liability of such recipient.
Saudi Arabia

This prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority. The Capital Market Authority does not make any representation as to the accuracy or completeness of this prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this prospectus. Prospective purchasers of the securities offered hereby should conduct their own due diligence on the accuracy of the information relating to the securities. If you do not understand the contents of this prospectus you should consult an authorized financial adviser.

Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of our ADSs may not be circulated or distributed, nor may our ADSs be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, or SFA, (ii) to a relevant person or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with conditions set forth in the SFA.

Where our ADSs are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor; shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the ADSs under Section 275 of the SFA, except: (1) to an institutional investor (for corporations under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is or will be given for the transfer; or (3) where the transfer is by operation of law.

Switzerland

The ADSs will not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange, or SIX, or on any other stock exchange or regulated trading facility in Switzerland. This prospectus has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland.

Neither this prospectus nor any other offering or marketing material relating to our company or the ADSs have been or will be filed with or approved by any Swiss regulatory authority. In particular, this prospectus will not be filed with, and the offer of the ADSs will not be supervised by, the Swiss Financial Market Supervisory Authority, and the offer of the ADSs has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes (the “CISA”). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of the ADSs.
Taiwan

The ADSs have not been and will not be registered or filed with, or approved by, the Financial Supervisory Commission of Taiwan pursuant to relevant securities laws and regulations and may not be offered or sold in Taiwan through a public offering or in circumstances which constitute an offer within the meaning of the Securities and Exchange Act of Taiwan or relevant laws and regulations that require a registration, filing or approval of the Financial Supervisory Commission of Taiwan. No person or entity in Taiwan has been authorized to offer or sell the ADSs in Taiwan.

United Arab Emirates.

This prospectus is not intended to constitute an offer, sale or delivery of shares or other securities under the laws of the United Arab Emirates, or the UAE. The ADSs have not been and will not be registered under Federal Law No. 4 of 2000 Concerning the Emirates Securities and Commodities Authority and the Emirates Security and Commodity Exchange, or with the UAE Central Bank, the Dubai Financial Market, the Abu Dhabi Securities Market or with any other UAE exchange.

The offering, the ADSs and interests therein have not been approved or licensed by the UAE Central Bank or any other relevant licensing authorities in the UAE, and do not constitute a public offer of securities in the UAE in accordance with the Commercial Companies Law, Federal Law No. 8 of 1984 (as amended) or otherwise.

In relation to its use in the UAE, this prospectus is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The interests in the ADSs may not be offered or sold directly or indirectly to the public in the UAE.

United Kingdom

In the United Kingdom, this document is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are “qualified investors” (i) who have professional experience in matters relating to investments falling within Article 19 (5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or the Order, and/or (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). This document must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. In the United Kingdom, any investment or investment activity to which this document relates is only available to, and will be engaged in with, relevant persons.

Each underwriter has represented and agreed that:

(a) it has only communicated or caused to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (“FSMA”) received by it in connection with the issue or sale of the ADSs in circumstances in which Section 21(1) of the FSMA does not apply to us; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the ADSs in, from or otherwise involving the United Kingdom.
Set forth below is an itemization of the total expenses, excluding underwriting discounts and commissions, that we expect to incur in connection with this offering. With the exception of the SEC registration fee, the Financial Industry Regulatory Authority, or FINRA, filing fee, and the Nasdaq application and listing fee, all amounts are estimates.

<table>
<thead>
<tr>
<th>Description</th>
<th>US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEC Registration Fee</td>
<td></td>
</tr>
<tr>
<td>FINRA Fee</td>
<td></td>
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<tr>
<td>Nasdaq application and listing fee</td>
<td></td>
</tr>
<tr>
<td>Printing and Engraving Expenses</td>
<td></td>
</tr>
<tr>
<td>Legal Fees and Expenses</td>
<td></td>
</tr>
<tr>
<td>Accounting Fees and Expenses</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>196</strong></td>
</tr>
</tbody>
</table>
LEGAL MATTERS

The validity of the ADSs and certain other legal matters with respect to U.S. federal and New York State law in connection with this offering will be passed upon for us by Skadden, Arps, Slate, Meagher & Flom LLP. Certain legal matters with respect to U.S. federal and New York State law in connection with this offering will be passed upon for the underwriters by Simpson Thacher & Bartlett LLP. The validity of the ordinary shares represented by the ADSs offered in this offering and other certain legal matters as to Cayman Islands law will be passed upon for us by Conyers Dill & Pearman. Legal matters as to PRC law will be passed upon for us by King & Wood Mallesons and for the underwriters by Global Law Firm. Skadden, Arps, Slate, Meagher & Flom LLP may rely upon Conyers Dill & Pearman with respect to matters governed by Cayman Islands law and King & Wood Mallesons with respect to matters governed by PRC law. Simpson Thacher & Bartlett LLP may rely upon Global Law Firm with respect to matters governed by PRC law.
The consolidated financial statements of BlueCity Holdings Limited as of and for the years ended December 31, 2018 and 2019 have been included herein and in the registration statement in reliance upon the report of KPMG Huazhen LLP, independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

The office of KPMG Huazhen LLP is located at 8th Floor, KPMG Tower, Oriental Plaza, 1 East Chang An Avenue, Beijing, the People’s Republic of China.
WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed a registration statement, including relevant exhibits, with the SEC on Form F-1 under the Securities Act with respect to the underlying ordinary shares represented by the ADSs to be sold in this offering. We have also filed a related registration statement on Form F-6 with the SEC to register the ADSs. This prospectus, which constitutes a part of the registration statement on Form F-1, does not contain all of the information contained in the registration statement. You should read our registration statements and their exhibits and schedules for further information with respect to us and our ADSs.

Immediately upon the effectiveness of the registration statement on Form F-1 of which this prospectus forms a part, we will become subject to periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Accordingly, we will be required to file reports, including annual reports on Form 20-F, and other information with the SEC. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

As a foreign private issuer, we are exempt under the Exchange Act from, among other things, the rules prescribing the furnishing and content of proxy statements, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we will not be required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we intend to furnish the depositary with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders’ meetings and other reports and communications that are made generally available to our shareholders. The depositary will make such notices, reports and communications available to holders of ADSs and, if we so request, will mail to all record holders of ADSs the information contained in any notice of a shareholders’ meeting received by the depositary from us.
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BLUECITY HOLDINGS LIMITED

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

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<td>Consolidated Balance Sheets as of December 31, 2018 and 2019</td>
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<td>Consolidated Statements of Comprehensive Loss for the Years Ended December 31, 2018 and 2019</td>
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<td>Consolidated Statements of Cash Flows for the Years Ended December 31, 2018 and 2019</td>
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<td>F-9 – F-43</td>
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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
BlueCity Holdings Limited:

Opinion on the Consolidated Financial Statements
We have audited the accompanying consolidated balance sheets of BlueCity Holdings Limited and subsidiaries (the Company) as of December 31, 2018 and 2019, the related consolidated statements of comprehensive loss, changes in shareholders’ deficit, and cash flows for the years then ended, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2019, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion
These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG Huazhen LLP

We have served as the Company’s auditor since 2017.

Beijing, China
March 13, 2020
## BLUECITY HOLDINGS LIMITED

### CONSOLIDATED BALANCE SHEETS

<table>
<thead>
<tr>
<th>Note</th>
<th>As of December 31, 2018</th>
<th>2019</th>
<th>Pro forma as of December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RMB</td>
<td>RMB</td>
<td>US$ (Note 2(d))</td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>63,046,583</td>
<td>297,273,822</td>
<td>42,700,713</td>
</tr>
<tr>
<td>Term deposits</td>
<td>371,765,818</td>
<td>83,016,780</td>
<td>11,924,614</td>
</tr>
<tr>
<td>Accounts receivable (net of allowance of RMB1,857,463 and nil as of December 31, 2018 and 2019, respectively)</td>
<td>9,490,271</td>
<td>1,217,559</td>
<td>174,891</td>
</tr>
<tr>
<td>Prepayments and other current assets</td>
<td>38,745,997</td>
<td>52,485,930</td>
<td>7,539,132</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>483,048,669</td>
<td>433,994,091</td>
<td>62,339,350</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>4,695,767</td>
<td>7,942,086</td>
<td>1,140,809</td>
</tr>
<tr>
<td>Investment securities</td>
<td>21,887,899</td>
<td>23,579,048</td>
<td>3,386,918</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>843,649</td>
<td>1,360,429</td>
<td>195,413</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>27,427,315</td>
<td>32,881,563</td>
<td>4,723,140</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>510,475,984</td>
<td>466,875,654</td>
<td>67,062,490</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>9,521,542</td>
<td>10,633,876</td>
<td>2,676,589</td>
</tr>
<tr>
<td>Amount due to a related party</td>
<td>6,863,200</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Deferred revenue (including deferred revenue of VIE without recourse to the Company of RMB1,488,828 and RMB865,167 as of December 31, 2018 and 2019, respectively)</td>
<td>23,757,459</td>
<td>32,555,402</td>
<td>4,676,291</td>
</tr>
<tr>
<td>Income tax payable (including income tax payable of VIE without recourse to the Company of nil and RMB112,473 as of December 31, 2018 and 2019, respectively)</td>
<td>—</td>
<td>940,080</td>
<td>135,034</td>
</tr>
<tr>
<td>Accrued expenses and other current liabilities (including accrued expenses and other current liabilities of VIE without recourse to the Company of RMB26,647,287 and RMB29,575,764 as of December 31, 2018 and 2019, respectively)</td>
<td>58,004,711</td>
<td>71,768,573</td>
<td>10,308,910</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>98,146,912</td>
<td>123,897,931</td>
<td>17,796,824</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Convertible debt</td>
<td>22,450,219</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td>22,450,219</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>120,597,131</td>
<td>123,897,931</td>
<td>17,796,824</td>
</tr>
</tbody>
</table>

Commitments and contingencies (Note 17)

The accompanying notes are an integral part of these consolidated financial statements.

F-3
<table>
<thead>
<tr>
<th>MEZZANINE EQUITY</th>
<th>Note</th>
<th>2018</th>
<th>2019</th>
<th>US$ (Note 2(d))</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series A Convertible Preferred Shares (US$0.0001 par value, 1,439,102 shares authorized, and outstanding as of December 31, 2018 and 2019; Liquidation value of RMB95,453,572 and RMB92,981,579 as of December 31, 2018 and 2019, respectively)</td>
<td>9</td>
<td>29,751,569</td>
<td>29,751,569</td>
<td>4,273,545</td>
<td>—</td>
</tr>
<tr>
<td>Series A-1 Redeemable Convertible Preferred Shares (US$0.0001 par value, 1,891,291 shares authorized, issued and outstanding as of December 31, 2018 and 2019; Redemption value of RMB16,359,246 and RMB17,959,327 as of December 31, 2018 and 2019, respectively; Liquidation value of RMB48,589,246 and RMB42,744,121 as of December 31, 2018 and 2019, respectively)</td>
<td>9</td>
<td>16,359,651</td>
<td>17,959,327</td>
<td>2,579,696</td>
<td>—</td>
</tr>
<tr>
<td>Series B Redeemable Convertible Preferred Shares (US$0.0001 par value, 1,862,069 shares authorized, issued and outstanding as of December 31, 2018 and 2019; Redemption value of RMB239,225,246 and RMB483,612,008 as of December 31, 2018 and 2019, respectively; Liquidation value of RMB127,140,832 and RMB129,234,158 as of December 31, 2018 and 2019, respectively)</td>
<td>9</td>
<td>239,225,246</td>
<td>483,612,008</td>
<td>69,466,518</td>
<td>—</td>
</tr>
<tr>
<td>Series C Redeemable Convertible Preferred Shares (US$0.0001 par value, 1,246,621 shares authorized, issued and outstanding as of December 31, 2018 and 2019; Redemption value of RMB178,003,498 and RMB327,278,389 as of December 31, 2018 and 2019, respectively; Liquidation value of RMB165,349,570 and RMB168,071,988 as of December 31, 2018 and 2019, respectively)</td>
<td>9</td>
<td>178,003,498</td>
<td>327,278,389</td>
<td>47,010,599</td>
<td>—</td>
</tr>
<tr>
<td>Series C-1 Redeemable Convertible Preferred Shares (US$0.0001 par value, 977,961 shares authorized, issued and outstanding as of December 31, 2018 and 2019; Redemption value of RMB150,811,043 and RMB258,989,069 as of December 31, 2018 and 2019, respectively; Liquidation value of RMB154,421,686 and RMB156,964,366 as of December 31, 2018 and 2019, respectively)</td>
<td>9</td>
<td>150,811,043</td>
<td>258,989,069</td>
<td>37,188,381</td>
<td>—</td>
</tr>
<tr>
<td>Series D Redeemable Convertible Preferred Shares (US$0.0001 par value, 2,522,101 shares authorized, 2,143,786 shares issued and outstanding as of December 31, 2018 and 2019; Redemption value of RMB460,765,137 and RMB612,978,394 as of December 31, 2018 and 2019, respectively; Liquidation value of RMB612,539,811 and RMB622,625,048 as of December 31, 2018 and 2019, respectively)</td>
<td>9</td>
<td>460,765,137</td>
<td>612,978,394</td>
<td>88,048,837</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total mezzanine equity</strong></td>
<td></td>
<td><strong>1,074,916,144</strong></td>
<td><strong>1,730,477,756</strong></td>
<td><strong>248,567,576</strong></td>
<td>—</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

**For the years ended December 31,**

<table>
<thead>
<tr>
<th>Note</th>
<th>2018</th>
<th>2019</th>
<th>US$ (Note 2 (d))</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RMB</td>
<td>RMB</td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>16 501,291,812</td>
<td>758,887,906</td>
<td>109,007,427</td>
</tr>
<tr>
<td><strong>Cost and expenses:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of revenues</td>
<td>(388,384,735)</td>
<td>(546,211,172)</td>
<td>(78,458,326)</td>
</tr>
<tr>
<td>Selling and marketing expenses</td>
<td>(98,011,115)</td>
<td>(119,436,794)</td>
<td>(17,156,022)</td>
</tr>
<tr>
<td>Technology and development expenses</td>
<td>(93,985,275)</td>
<td>(129,651,820)</td>
<td>(18,623,319)</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>(70,071,557)</td>
<td>(24,439,169)</td>
<td>(3,510,467)</td>
</tr>
<tr>
<td><strong>Total cost and expenses</strong></td>
<td>(650,452,682)</td>
<td>(819,738,955)</td>
<td>(117,748,134)</td>
</tr>
<tr>
<td>Operating loss</td>
<td>(149,160,870)</td>
<td>(60,851,049)</td>
<td>(8,740,707)</td>
</tr>
<tr>
<td>Changes in fair value of financial instruments</td>
<td>(4,043,910)</td>
<td>(9,024,437)</td>
<td>(1,296,279)</td>
</tr>
<tr>
<td>Gain on extinguishment of a convertible debt</td>
<td>—</td>
<td>8,986,048</td>
<td>1,290,765</td>
</tr>
<tr>
<td>Interest income</td>
<td>8,644,582</td>
<td>8,890,484</td>
<td>1,277,038</td>
</tr>
<tr>
<td><strong>Loss before income taxes</strong></td>
<td>(144,560,198)</td>
<td>(51,998,954)</td>
<td>(7,469,183)</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>13</td>
<td>(930,554)</td>
<td>(133,666)</td>
</tr>
<tr>
<td><strong>Net loss</strong></td>
<td>(144,560,198)</td>
<td>(52,929,508)</td>
<td>(7,602,849)</td>
</tr>
<tr>
<td>Deemed dividend to Series D Redeemable Convertible Preferred Shareholders</td>
<td>(1,535,112)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Accretion and modification of redeemable convertible preferred shares to redemption value</td>
<td>(236,614,898)</td>
<td>(631,005,563)</td>
<td>(90,638,278)</td>
</tr>
<tr>
<td><strong>Net loss attributable to ordinary shareholders</strong></td>
<td>(382,710,208)</td>
<td>(683,935,071)</td>
<td>(98,241,127)</td>
</tr>
<tr>
<td><strong>Net loss per ordinary share</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>—Basic and diluted</td>
<td>14</td>
<td>(68.16)</td>
<td>(121.81)</td>
</tr>
<tr>
<td><strong>Weighted average number of shares outstanding used in computing net loss per ordinary share</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>—Basic and diluted</td>
<td>14</td>
<td>5,614,840</td>
<td>5,614,840</td>
</tr>
<tr>
<td><strong>Net loss</strong></td>
<td>(144,560,198)</td>
<td>(52,929,508)</td>
<td>(7,602,849)</td>
</tr>
<tr>
<td><strong>Other comprehensive loss</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized gain on an available-for-sale investment, net of nil income taxes</td>
<td>1,693,634</td>
<td>1,591,098</td>
<td>228,547</td>
</tr>
<tr>
<td>Foreign currency translation adjustment, net of nil income taxes</td>
<td>(29,152,307)</td>
<td>(20,118,769)</td>
<td>(2,889,880)</td>
</tr>
<tr>
<td><strong>Comprehensive loss</strong></td>
<td>(172,018,871)</td>
<td>(71,457,179)</td>
<td>(10,264,182)</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
## BLUECITY HOLDINGS LIMITED

### CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS’ DEFICIT

<table>
<thead>
<tr>
<th>Shares</th>
<th>Ordinary shares</th>
<th>Additional paid in capital</th>
<th>Accumulated other comprehensive income/(loss)</th>
<th>Accumulated deficit</th>
<th>Total shareholders’ deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net loss</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(144,560,198)</td>
<td>(144,560,198)</td>
</tr>
<tr>
<td>Issuance premium on Series A Convertible Preferred Shares</td>
<td>—</td>
<td>—</td>
<td>23,709,541</td>
<td>—</td>
<td>23,709,541</td>
</tr>
<tr>
<td>Deemed dividend to Series D Redeemable Convertible Preferred Shareholders</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(1,535,112)</td>
<td>(1,535,112)</td>
</tr>
<tr>
<td>Accretion of redeemable convertible preferred shares</td>
<td>—</td>
<td>(23,709,541)</td>
<td>—</td>
<td>(212,905,357)</td>
<td>(236,614,898)</td>
</tr>
<tr>
<td>Unrealized gain on an available-for-sale investment, net of nil income taxes</td>
<td>—</td>
<td>—</td>
<td>1,693,634</td>
<td>—</td>
<td>1,693,634</td>
</tr>
<tr>
<td>Foreign currency translation adjustment, net of nil income taxes</td>
<td>—</td>
<td>—</td>
<td>(29,152,307)</td>
<td>—</td>
<td>(29,152,307)</td>
</tr>
<tr>
<td>Balance as of December 31, 2018</td>
<td>5,614,840</td>
<td>3,446</td>
<td>(22,574,272)</td>
<td>(662,466,465)</td>
<td>(685,037,291)</td>
</tr>
<tr>
<td>Net loss</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(52,929,508)</td>
<td>(52,929,508)</td>
</tr>
<tr>
<td>Accretion and modification of redeemable convertible preferred shares</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(631,005,563)</td>
<td>(631,005,563)</td>
</tr>
<tr>
<td>Unrealized gain on an available-for-sale investment, net of nil income taxes</td>
<td>—</td>
<td>—</td>
<td>1,591,098</td>
<td>—</td>
<td>1,591,098</td>
</tr>
<tr>
<td>Foreign currency translation adjustment, net of nil income taxes</td>
<td>—</td>
<td>—</td>
<td>(20,118,769)</td>
<td>—</td>
<td>(20,118,769)</td>
</tr>
<tr>
<td>Balance as of December 31, 2019</td>
<td>5,614,840</td>
<td>3,446</td>
<td>(41,101,943)</td>
<td>(1,346,401,536)</td>
<td>(1,387,500,033)</td>
</tr>
<tr>
<td>Balance as of December 31, 2019-US$ (Note 2(d))</td>
<td>495</td>
<td>—</td>
<td>(5,903,925)</td>
<td>(193,398,480)</td>
<td>(199,301,910)</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
## Table of Contents

**BLUECITY HOLDINGS LIMITED**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the Years Ended December 31

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>US$ (Note 2(d))</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating activities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net loss</strong></td>
<td>(144,560,198)</td>
<td>(52,929,508)</td>
<td>(7,602,849)</td>
</tr>
<tr>
<td><strong>Adjustments to reconcile net loss to net cash used in operating activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>887,010</td>
<td>592,717</td>
<td>85,138</td>
</tr>
<tr>
<td>Depreciation</td>
<td>2,428,734</td>
<td>2,619,662</td>
<td>376,294</td>
</tr>
<tr>
<td>Changes in fair value of financial instruments</td>
<td>4,043,910</td>
<td>9,024,437</td>
<td>1,296,279</td>
</tr>
<tr>
<td>Gain on extinguishment of a convertible debt</td>
<td>–</td>
<td>(8,986,048)</td>
<td>(1,290,765)</td>
</tr>
<tr>
<td>Loss on disposal of property and equipment</td>
<td>–</td>
<td>15,765</td>
<td>2,265</td>
</tr>
<tr>
<td>Unrealized foreign currency exchange gain</td>
<td>(2,213,400)</td>
<td>(750,270)</td>
<td>(107,770)</td>
</tr>
<tr>
<td><strong>Changes in operating assets and liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>(5,798,476)</td>
<td>7,679,995</td>
<td>1,103,162</td>
</tr>
<tr>
<td>Prepayments and other current assets</td>
<td>(4,915,605)</td>
<td>(4,703,693)</td>
<td>(675,643)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(1,641,421)</td>
<td>9,023,623</td>
<td>1,296,162</td>
</tr>
<tr>
<td>Amount due to a related party</td>
<td>6,614,000</td>
<td>(6,096,800)</td>
<td>(900,951)</td>
</tr>
<tr>
<td>Income tax payable</td>
<td>–</td>
<td>930,554</td>
<td>133,666</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>13,200,442</td>
<td>8,787,345</td>
<td>1,262,223</td>
</tr>
<tr>
<td>Accrued expenses and other current liabilities</td>
<td>28,527,004</td>
<td>3,952,391</td>
<td>567,725</td>
</tr>
<tr>
<td><strong>Net cash used in operating activities</strong></td>
<td>(103,428,000)</td>
<td>(31,641,810)</td>
<td>(4,545,064)</td>
</tr>
<tr>
<td><strong>Investing activities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of property and equipment</td>
<td>(3,500,413)</td>
<td>(5,881,767)</td>
<td>(844,863)</td>
</tr>
<tr>
<td>Purchase of term deposits</td>
<td>(358,267,152)</td>
<td>(82,061,210)</td>
<td>(11,787,355)</td>
</tr>
<tr>
<td>Proceeds from maturity of term deposits</td>
<td>269,183,186</td>
<td>373,537,111</td>
<td>53,655,249</td>
</tr>
<tr>
<td>Purchase of investment securities</td>
<td>(20,587,500)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Net cash (used in)/provided by investing activities</strong></td>
<td>(113,171,879)</td>
<td>285,594,134</td>
<td>41,023,031</td>
</tr>
<tr>
<td><strong>Financing activities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from issuance of Series A Convertible Preferred Shares</td>
<td>50,753,200</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Proceeds from issuance of Series D Redeemable Convertible Preferred Shares</td>
<td>122,411,407</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Payments for issuance cost of Series D Redeemable Convertible Preferred Shares</td>
<td>(6,913,310)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Payments for initial public offering (“IPO”) costs</td>
<td>–</td>
<td>(2,252,291)</td>
<td>(323,521)</td>
</tr>
<tr>
<td>Repayment of a convertible debt</td>
<td>–</td>
<td>(20,000,000)</td>
<td>(2,877,820)</td>
</tr>
<tr>
<td>Issuance of interest free loans to a shareholder</td>
<td>–</td>
<td>(8,000,000)</td>
<td>(1,149,128)</td>
</tr>
<tr>
<td>Proceeds from repayment of interest free loans to a shareholder</td>
<td>–</td>
<td>8,000,000</td>
<td>1,149,128</td>
</tr>
<tr>
<td><strong>Net cash provided by/(used in) financing activities</strong></td>
<td>166,251,377</td>
<td>(22,252,291)</td>
<td>(3,196,341)</td>
</tr>
<tr>
<td><strong>Effect of foreign currency exchange rate changes on cash and cash equivalents</strong></td>
<td>3,406,343</td>
<td>2,527,206</td>
<td>363,012</td>
</tr>
<tr>
<td><strong>Net (decrease)/increase in cash and cash equivalents</strong></td>
<td>(46,942,159)</td>
<td>234,227,239</td>
<td>33,644,638</td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the year</td>
<td>109,988,742</td>
<td>63,046,583</td>
<td>9,056,075</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the end of the year</strong></td>
<td>63,046,583</td>
<td>297,273,822</td>
<td>42,700,713</td>
</tr>
</tbody>
</table>

**Supplemental cash flow information:**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest paid</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Accrual of IPO costs</td>
<td>–</td>
<td>6,227,056</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.

F-8
BLUECITY HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND ORGANIZATION

Description of business

BlueCity Holdings Limited ("the Company"), through its wholly-owned subsidiaries, consolidated variable interest entity ("VIE") and VIE’s subsidiaries (collectively referred to as "the Group"), is principally engaged in mobile-based social and entertainment services which mainly includes live streaming, advertising, membership and other services. The Group’s principal operations and geographic markets are in the People’s Republic of China ("PRC").

Organization

The Group operates its business in the PRC through Beijing BlueCity Culture and Media Co., Ltd. ("BlueCity Culture Media", or the "VIE"), a limited liability company established under the laws of the PRC on September 7, 2011. BlueCity Culture Media holds the necessary PRC operating licenses from the government in order to carry out mobile platform operations in China. The recognized and unrecognized revenue-producing assets that were held by VIE primarily consisted of network equipment, the website and ICP licenses. The equity interests of BlueCity Culture Media are legally held by Mr. Baoli Ma, founder, Director and Chief Executive Officer of the Group, and Mr. Changyou Ma, a family member of the founder, who act as nominee equity holders of the VIE on behalf of Beijing BlueCity Information & Technology Co., Ltd., ("BlueCity Information Technology", or WFOE), the Company’s wholly owned subsidiary in the PRC. A series of contractual agreements, including Powers of Attorney, Exclusive Consulting and Service Agreement, Equity Interest Pledge Agreement, Exclusive Option Agreement and Spouse Consent Letters (collectively, the “VIE Agreements”), were entered among BlueCity Information Technology, BlueCity Culture Media and its nominee equity holders. Through the VIE Agreements, the nominee equity holders of the VIE have granted all their legal rights including voting rights and disposition rights of their equity interests in the VIE to WFOE. The nominee equity holders of the VIE do not participate significantly in income and loss and do not have the power to direct the activities of the VIE that most significantly impact their economic performance. Accordingly, the VIE is considered a variable interest entity.

In accordance with Accounting Standards Codification (“ASC”) 810-10-25-38A, the Company, through the WFOE, has a controlling financial interest in the VIE because the WFOE has (i) the power to direct activities of the VIE that most significantly impact the economic performance of the VIE; and (ii) the obligation to absorb the expected losses and the right to receive expected residual return of the VIE that could potentially be significant to the VIE. Thus, the Company, through the WFOE, is the primary beneficiary of the VIE.

Under the terms of the VIE Agreements, the WFOE has (i) the right to receive economic benefits that could potentially be significant to the VIE in the form of service fees under the Exclusive Consulting and Service Agreement; (ii) the right to receive all dividends declared by the VIE and the right to all undistributed earnings of the VIE; (iii) the obligation to absorb the substantially expected losses and the right to receive the residual benefits of the VIE through its exclusive option to acquire 100% of the equity interests in the VIE, to the extent permitted under PRC law. Accordingly, the financial statements of the VIE are consolidated in the Company’s consolidated financial statements.

Under the terms of the VIE Agreements, the VIE’s nominee equity holders have no rights to the net assets nor have the obligations to fund the deficit, and such rights and obligations have been vested to the Company. All of the deficit (net liabilities) and net loss of the VIE are attributed to the Company.
1. DESCRIPTION OF BUSINESS AND ORGANIZATION (Continued)

The principal terms of the VIE Agreements are further described below.

1) Powers of Attorney

Pursuant to the Powers of Attorney, the equity holders of the VIE irrevocably appointed WFOE as their attorney-in-fact to exercise all equity holder rights, including, but not limited to: (1) the right to attend shareholders’ meeting of the VIE, (2) the right to vote on their behalf on all matters of the VIE requiring shareholder’s approval under the laws of China and the Articles of Association of the VIE, including but not limited to the sale or transfer or pledge or disposition of their shareholding in part or in whole, and (3) designate and appoint on behalf of such nominee equity holders the legal representative, the directors, supervisors, the chief executive officer and other senior management members of the VIE. Each Powers of Attorney agreement is irrevocable and continuously effective from the execution date.

2) Exclusive Consulting and Service Agreement

WFOE and the VIE entered into an Exclusive Consulting and Service Agreement, whereby WFOE is engaged as the exclusive service provider for the provision of business support, technology and consulting services to the VIE. Unless a written consent is given by WFOE, the VIE is not allowed to engage a third party to provide such services. The VIE shall pay WFOE on a quarterly basis a service fee at an amount confirmed by WFOE. WFOE owns the exclusive intellectual property rights, whether created by WFOE or the VIE, as a result of the performance of the Exclusive Consulting and Service Agreement unless terminated in writing by WFOE. The Exclusive Consulting and Service Agreement will be in effect permanent unless terminated by WFOE.

3) Equity Interest Pledge Agreement

Pursuant to Equity Interest Pledge Agreement, the nominee equity holders of the VIE have pledged all of their equity interest in the VIE to guarantee the nominee equity holders’ and the VIE’s performance of their obligations under Exclusive Consulting and Service Agreement. If the VIE or the nominee equity holders breach their contractual obligations under these agreements, WFOE, as pledgee, will be entitled to certain rights regarding the pledged interests, including receiving proceeds from the auction or sale of all or part of the pledged interests of the VIE in accordance with the law. The nominee equity holders of the VIE agree that, during the term of the Equity Interest Pledge Agreement, they will not dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests without the prior written consent of WFOE. The Equity Interest Pledge Agreements remain effective until (i) the termination of the Exclusive Consulting and Services Agreement with all service fees under the Exclusive Consulting and Services Agreement have been paid and no further obligation shall be undertaken by the VIE; or (ii) the equity interests of the VIE have been transferred to WFOE or any third party designated by it. The pledge was registered with the relevant local administration for industry and commerce in November 2019 and will remain binding until the VIE and its nominee equity holders discharge all their obligations under the contractual arrangements. The registration of the equity pledge enables the WFOE to enforce the equity pledge against third parties who acquire the equity interests of the VIE in good faith.

4) Exclusive Option Agreement

Pursuant to the Exclusive Option Agreement, the equity holders of the VIE have irrevocably granted WFOE or any third party designated by WFOE an exclusive option to purchase, at its discretion, to the extent permitted under PRC law, all or part of the equity interests in the VIE. The purchase price shall be the minimum price permitted under PRC law and regulations, which price may be adjusted based on the valuation of the equity interests of the assets, if required by PRC laws and regulations. The equity holders should remit to the Company any amount that is paid by the Company or its designated person(s) in connection with the purchased equity.
interest. Without prior written consent of WFOE, the VIE and the equity holders shall not (i) transfer or otherwise dispose of, create any pledge or encumbrance on their equity interests in the VIE, (ii) change the VIE’s registered capital, or increase or decrease the VIE’s current equity interests owners, (iii) amend the VIE’s articles of association, or (iv) dispose or make the VIE’s management to dispose any assets of the VIE, other than in the ordinary course of business. The VIE and its equity holders shall appoint those individuals recommended by WFOE as directors of the VIE. The agreement will remain effective until WFOE has exercised all of its rights under the agreement, unless otherwise terminated by WFOE immediately in its sole discretion with written notice.

5) Spouse Consent Letters

Pursuant to the Spouse Consent Letter, the spouse of Mr. Changyou Ma, confirmed that she can perform the obligations under VIE Agreements. The spouse of Mr. Changyou Ma agreed that the equity interest in VIE held by Mr. Changyou Ma and registered in the name of Mr. Changyou Ma will be disposed of pursuant to the Powers of Attorney, Exclusive Consulting and Service Agreement, Equity Interest Pledge Agreement and Exclusive Option Agreement. In addition, in the event that the spouse of Mr. Changyou Ma obtains any equity interest in the VIE for any reason, she agreed to be bound by the VIE Agreements.

The Company relies on the VIE Agreements to operate and control VIE. All of the VIE Agreements are governed by PRC laws and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC laws and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in some other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit the Company’s ability to enforce these contractual arrangements. In the event that the Company is unable to enforce these contractual arrangements, or if the Company suffers significant time delays or other obstacles in the process of enforcing these contractual arrangements, it would be difficult to exert effective control over VIE, and the Company’s ability to conduct its business and the results of operations and financial condition may be materially and adversely affected.

In the opinion of management, based on the legal opinion obtained from the Company’s PRC legal counsel, the above contractual arrangements are legally binding and enforceable and do not violate current PRC laws and regulations. However, there are uncertainties regarding the interpretation and application of existing and future PRC laws and regulations. Accordingly, the Company cannot be assured that PRC regulatory authorities will not ultimately take a contrary view to its opinion. If the Company’s corporate structure and contractual arrangements are found to be in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violations, including:

- revoking the business licenses and/or operating licenses of the Company;
- discontinuing or placing restrictions or onerous conditions on the operations;
- imposing fines, confiscating the income from WFOE or the VIE, or imposing other requirements with which the Company or the VIE may not be able to comply;
- requiring the Company to restructure the ownership structure or operations, including terminating the contractual arrangements with the VIE and deregistering the equity pledges of the VIE, which in turn would affect our ability to consolidate, derive economic interests from, or exert effective control over the VIE, or imposing restrictions on the Company’s right to collect revenues;
- shutting down the Company’s servers or blocking the Company’s app/websites;
- imposing additional conditions or requirements with which the Company may not be able to comply;
1. DESCRIPTION OF BUSINESS AND ORGANIZATION (Continued)

- requiring the Company to restructure the operations in such a way as to compel the Company to establish a new enterprise, re-apply for the necessary licenses or relocate our businesses, staff and assets; or
- restricting or prohibiting the Company use of the proceeds of overseas offering to finance the business and operations in China.

If the imposition of any of these penalties or requirement to restructure the Company’s corporate structure causes it to lose the rights to direct the activities of the VIE or the Company’s right to receive its economic benefits, the Company would no longer be able to consolidate the financial results of the VIE in its consolidated financial statements. In the opinion of management, the likelihood of deconsolidation of the VIE is remote based on current facts and circumstances.

The equity interests of VIE are legally held by Mr. Baoli Ma and Mr. Changyou Ma as nominee equity holders on behalf of the Company. Mr. Baoli Ma holds 37.4% of the total ordinary shares and share options issued and outstanding of the Company as of December 31, 2019, assuming the vesting and exercising of all outstanding share options held by Mr. Baoli Ma as of such date. The Company cannot assure that when conflicts of interest arise, either of the nominee equity holders will act in the best interests of the Company or such conflicts will be resolved in the Company’s favor. Currently, the Company does not have any arrangements to address potential conflicts of interest between the nominee equity holders and the Company, except that the Company could exercise the purchase option under the Exclusive Option Agreement with the nominee equity holders to request them to transfer all of their equity ownership in VIE to a PRC entity or individual designated by the Company. The Company relies on the nominee equity holders, one of them is the Company’s director and owes a fiduciary duty to the Company, to comply with the terms and conditions of the contractual arrangements. Such fiduciary duty requires the director to act in good faith and in the best interests of the Company and not to use his positions for personal gains. If the Company cannot resolve any conflict of interest or dispute between the Company and the nominee equity holders of VIE, the Company would have to rely on legal proceedings, which could result in disruption of the Company’s business and subject the Company to substantial uncertainty as to the outcome of any such legal proceedings.

The Company’s involvement with the VIE under the VIE Agreements affected the Company’s consolidated financial position, results of operations and cash flows as indicated below.
Table of Contents

1. DESCRIPTION OF BUSINESS AND ORGANIZATION (Continued)

The following consolidated assets and liabilities information of the Group’s VIE as of December 31, 2018 and 2019, and consolidated revenues, net loss and cash flow information for the years then ended, have been included in the accompanying consolidated financial statements. All intercompany transactions and balances with the Company, and its wholly-owned subsidiaries have been eliminated upon consolidation.

<table>
<thead>
<tr>
<th></th>
<th>As of December 31, 2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RMB</td>
<td>RMB</td>
</tr>
<tr>
<td>Cash</td>
<td>5,961,157</td>
<td>16,334,782</td>
</tr>
<tr>
<td>Accounts receivable (net of allowance of RMB1,857,463 and nil as of December 31, 2018 and 2019, respectively)</td>
<td>9,490,271</td>
<td>1,217,559</td>
</tr>
<tr>
<td>Prepayments and other current assets</td>
<td>15,847,255</td>
<td>10,176,208</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>31,298,683</strong></td>
<td><strong>27,728,549</strong></td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>1,315,659</td>
<td>4,206,421</td>
</tr>
<tr>
<td>Investment securities</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>806,291</td>
<td>476,724</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td><strong>2,171,950</strong></td>
<td><strong>4,733,145</strong></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>33,470,633</strong></td>
<td><strong>32,461,694</strong></td>
</tr>
<tr>
<td>Amounts due to related parties</td>
<td>13,171,277</td>
<td>18,601,875</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>1,488,828</td>
<td>865,167</td>
</tr>
<tr>
<td>Income tax payable</td>
<td>—</td>
<td>112,473</td>
</tr>
<tr>
<td>Accrued expenses and other current liabilities</td>
<td>26,647,287</td>
<td>29,575,764</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>41,307,392</strong></td>
<td><strong>49,155,279</strong></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>41,307,392</strong></td>
<td><strong>49,155,279</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>For the Years Ended December 31, 2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RMB</td>
<td>RMB</td>
</tr>
<tr>
<td>Revenues</td>
<td>38,365,840</td>
<td>42,007,427</td>
</tr>
<tr>
<td>Net loss</td>
<td>(13,713,598)</td>
<td>(8,856,826)</td>
</tr>
<tr>
<td>Net cash (used in)/provided by operating activities</td>
<td>(6,075,096)</td>
<td>7,844,615</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(1,473,710)</td>
<td>(2,901,588)</td>
</tr>
<tr>
<td>Net cash provided by financing activities</td>
<td>3,569,123</td>
<td>5,430,598</td>
</tr>
<tr>
<td>Net (decrease)/increase in cash</td>
<td>(3,979,683)</td>
<td>10,373,625</td>
</tr>
<tr>
<td>Cash at the beginning of the year</td>
<td>9,940,840</td>
<td>5,961,157</td>
</tr>
<tr>
<td>Cash at the end of the year</td>
<td>5,961,157</td>
<td>16,334,782</td>
</tr>
</tbody>
</table>

In accordance with VIE Agreements, WFOE has the power to direct the activities of the VIE. Therefore, the Company considers that there are no assets in the VIE that can be used only to settle obligations of the VIE, except for paid in capital of RMB1 million as of December 31, 2018 and 2019. The creditors of the VIE do not have recourse to the general credit of WFOE.

During the years presented, the Company and its wholly-owned subsidiaries provided financial support to VIE that they were not previously contractually required to provide in the form of advances. To the extent VIE requires financial support, the WFOE may, at its option and to the extent permitted under the PRC law, provide such support to VIE through loans to VIE’s nominee equity holders or entrustment loans to VIE.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The accompanying consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

(b) Principles of consolidation

The consolidated financial statements include the financial statements of the Company, its wholly-owned subsidiaries, the VIE in which the Company, through its WFOE, has a controlling financial interest, and VIE’s wholly-owned subsidiaries.

All intercompany transactions and balances among the Company, its wholly-owned subsidiaries, the VIE, and the VIE’s wholly-owned subsidiaries have been eliminated upon consolidation.

(c) Use of estimates

The preparation of the consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related disclosures of contingent assets and liabilities at the balance sheet date, and the reported revenues and expenses during the reported periods. Significant accounting estimates include, but not limited to, the allowance for doubtful accounts receivable, the realization of deferred income tax assets, fair values of share based compensation awards, investment securities, convertible debt, redeemable convertible preferred shares and ordinary shares. Changes in facts and circumstances may result in revised estimates. Actual results could differ from those estimates, and as such, differences may be material to the consolidated financial statements.

(d) Convenience translation

Translations of balances in the consolidated financial statements from RMB into US$ as of and for the year ended December 31, 2019 are solely for the convenience of the readers and were calculated at the rate of US$1.00 = RMB6.9618, representing the noon buying rate in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2019. No representation is made that the RMB amounts could have been, or could be, converted, realized or settled into US$ at that rate on December 31, 2019, or at any other rate.

The US$ convenience translation is not required under U.S. GAAP and all US$ convenience translation amounts in the accompanying consolidated financial statements are unaudited.

(e) Commitments and contingencies

In the normal course of business, the Group is subject to loss contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters, including, among others, government investigations, shareholder lawsuits, and non-income tax matters. An accrual for a loss contingency is recognized when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. If a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash at bank and term deposits, which have original maturities of three months or less and are readily convertible to know amounts of cash. The Group’s cash and cash equivalents, excluding cash on hand, are deposited in financial institutions at below locations:

<table>
<thead>
<tr>
<th>Financial institutions in the mainland of the PRC</th>
<th>2018 RMB</th>
<th>2019 RMB</th>
</tr>
</thead>
<tbody>
<tr>
<td>—Denominated in RMB</td>
<td>15,385,512</td>
<td>47,254,666</td>
</tr>
<tr>
<td>—Denominated in USD</td>
<td>36,006,296</td>
<td>232,070,419</td>
</tr>
<tr>
<td>Total cash and cash equivalents balances held at mainland PRC financial institutions</td>
<td>51,391,808</td>
<td>279,325,085</td>
</tr>
<tr>
<td>Financial institution in Hong Kong Special Administrative Region (&quot;Hong Kong S.A.R.&quot;)</td>
<td>10,945,322</td>
<td>3,760,015</td>
</tr>
<tr>
<td>—Denominated in HKD</td>
<td>10,945,322</td>
<td>3,760,015</td>
</tr>
<tr>
<td>—Denominated in USD</td>
<td>1,636</td>
<td>833,125</td>
</tr>
<tr>
<td>Total cash balances held at the Hong Kong S.A.R. financial institution</td>
<td>10,946,958</td>
<td>4,593,140</td>
</tr>
<tr>
<td>Financial institutions in the United States</td>
<td>545,418</td>
<td>13,070,290</td>
</tr>
<tr>
<td>—Denominated in USD</td>
<td>545,418</td>
<td>13,070,290</td>
</tr>
<tr>
<td>Total cash balances held at the United States financial institutions</td>
<td>545,418</td>
<td>13,070,290</td>
</tr>
<tr>
<td>Financial institution in Vietnam</td>
<td>—</td>
<td>191,150</td>
</tr>
<tr>
<td>—Denominated in Vietnamese Dong</td>
<td>—</td>
<td>191,150</td>
</tr>
<tr>
<td>Total cash balances held at the Vietnam financial institution</td>
<td>—</td>
<td>191,150</td>
</tr>
<tr>
<td>Total cash balances held at financial institutions</td>
<td>62,884,184</td>
<td>297,179,665</td>
</tr>
</tbody>
</table>

(g) Term deposits

Term deposits represent deposits at bank with original maturities more than three months but less than one year. The Group’s term deposits are denominated in USD and are deposited at financial institutions in the mainland of the PRC.

(h) Accounts receivable and allowance for doubtful accounts

Accounts receivable are recognized in the period when the Group has provided services to its customers and when its right to consideration is unconditional. The Group reviews the accounts receivable on a periodic basis and makes general and specific allowances when there is doubt as to the collectability of individual balances. The group considers many factors in assessing the collectability of its receivables, such as the age of the amounts due, the customer’s payment history and credit-worthiness. An allowance for doubtful accounts is recorded in the period in which a loss is determined to be probable. Accounts receivable balances are written off after all collection efforts have been exhausted.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Property and equipment, net

Property and equipment are stated at cost less accumulated depreciation and depreciated using the straight-line method over the estimated useful lives of the assets, as follows:

<table>
<thead>
<tr>
<th>Property and Equipment Type</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office and electronic equipment</td>
<td>3 years</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>Shorter of 3 years or lease term</td>
</tr>
</tbody>
</table>

When items are retired or otherwise disposed of, income is charged or credited for the difference between net book value and the proceeds received thereon. Ordinary maintenance and repairs are charged to expense as incurred, and replacements and betterments are capitalized and amortized over the remaining useful life.

(j) Impairment of long-lived asset

Long-lived asset or asset group such as property and equipment is evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of an asset or asset group may not be fully recoverable or that the useful life is shorter than the Group had originally estimated. When these events occur, the Group evaluates the impairment for the long-lived asset or asset group by comparing the carrying value of the asset or asset group to an estimate of future undiscounted cash flows expected to be generated from the use of the asset or asset group and their eventual disposition. If the sum of the expected future undiscounted cash flows is less than the carrying value of the asset or asset group, the Group recognizes an impairment loss based on the excess of the carrying value of the asset or asset group over the fair value of the asset or asset group. No impairment of long-lived asset or asset group was recognized for the years ended December 31, 2018 and 2019.

(k) Investment securities

The Group’s investment securities consist of debt securities and equity securities with readily determinable fair values.

Debt securities

The Group accounts for debt securities as available-for-sale (“AFS”) when they are not classified as either trading or held-to-maturity. AFS securities are recorded at fair value, with unrealized gains and losses, net of related tax effect, are excluded from earnings and are reported as a separate component of accumulated other comprehensive loss until realized. Realized gains and losses from the sale of AFS securities are determined on a specific-identification basis. An impairment loss on the AFS securities are recognized in the consolidated statement of comprehensive loss when the decline in value is determined to be other-than-temporary. No impairment loss was recognized for the years ended December 31, 2018 and 2019.

Equity investments

All equity investments with readily determinable fair values, other than those accounted for under equity method of accounting or those that result in consolidation of the investee, are measured at fair value with changes in the fair value recognized through net income.

(l) Value added taxes

The Company’s PRC subsidiary, VIE and VIE’s subsidiaries are subject to value added tax (“VAT”). Revenues from providing online services are generally subject to VAT at the rate of 6% and subsequently paid to PRC tax authorities after netting input VAT on purchases. The excess of output VAT over input VAT is reflected in accrued expenses and other current liabilities, and the excess of input VAT over output VAT is reflected in prepayments and other current assets in the consolidated balance sheets.
(m) Fair value measurements

Fair value represents the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability.

ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820") defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Accounting guidance establishes a three-level fair value hierarchy and requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of inputs are:

- Level 1—Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2—Include other inputs that are directly or indirectly observable in the marketplace.
- Level 3—Unobservable inputs which are supported by little or no market activity.

Accounting guidance also describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

Financial assets and liabilities of the Group primarily consist of cash and cash equivalents, term deposits, accounts receivable, investment securities, accounts payable, amount due to a related party and convertible debt. The Group measures investment securities and convertible debt at fair value on a recurring basis. Investments securities and convertible debt were measured at fair value using unobservable inputs and categorized in Level 3 of the fair value hierarchy. As of December 31, 2018 and 2019, the carrying amounts of other financial instruments approximated to their fair values due to the short term maturity of these instruments.

The Group’s non-financial assets, such as property and equipment, would be measured at fair value only if they were determined to be impaired.

(n) Revenue recognition

The Group principally derives its revenues from live streaming, advertising, membership and other services. On January 1, 2017, the Group adopted ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606") and recognizes revenue when control of the promised service is transferred to the customers, in an amount that reflects the consideration that the Group expects to receive in exchange for those services.

Live streaming service

The Group operates an integrated platform, *Blued*, consisting of IT infrastructure, mobile applications and its proprietary algorithm, to offer live and interactive streaming services to individual viewers as its customers. The Group engages broadcasters to perform on the Group’s platform, which through its proprietary algorithm, enables individual viewers to discover live streaming channels and broadcasters they may find interesting and provide more personal experience.
Individual viewer can purchase virtual gifts on the Group’s platform, and simultaneously present to broadcasters during their live streaming performance to show their support for their favorite broadcasters. The Group has sole discretion in designing and establishing pricing of virtual gifts. Individual viewer purchases virtual gifts using the Group’s virtual currency which is in turn acquired through online third-party payment platforms. Virtual currency is non-refundable and does not have expiration date. It is often consumed soon after it is purchased.

The Group considers live streaming service as one performance obligation to its customers. The consideration received from individual viewers varies at viewers’ discretion, as they purchase and present variable quantity or value of virtual gifts to broadcasters during a performance. The recognition of such variable consideration is constrained until the amount is known, which is when an individual viewer purchases virtual gifts and simultaneously presents them to broadcasters during their live streaming performance. Accordingly, revenue is recognized when virtual gifts are consumed as they are presented to broadcasters. Unconsumed virtual currency is recorded as deferred revenue.

The Group evaluates and determines individual viewers as its customers and the Group is the principal in providing live streaming services to them, and hence reports live streaming revenues on a gross basis. Accordingly, the amounts billed to viewers are recorded as revenues and revenue sharing fee paid to broadcasters through talent agencies are recorded as cost of revenues. The Group controls the integrated live streaming services, which is evidenced by its contractual relationship with individual viewers and primary responsibility for fulfilling the promise to provide the live streaming services, including operating the self-developed live streaming platform and maintaining the operation of the platform, engaging broadcasters through talent agencies to perform on its platform, investing in and using its algorithm to optimize individual viewers’ live streaming experience, enabling individual viewers to discover the broadcasters and shows they may be interested in, developing new features in the platform, promoting activities including the general promotion of the platform and the promotion of popular broadcasters and offering the virtual items to viewers to be purchased and used in the platform. Its control is also evidenced by its sole ability to monetize the live streaming services and the level of discretion in establishing pricing. The Group also has latitude in establishing the amount of compensation that broadcasters and talent agencies receive as a percentage of revenues generated from virtual gift sales. Such percentage is subject to the achievement of broadcasters and talent agencies on the KPIs set by the Group.

Advertising

The Company offers marketing services on the Company’s mobile app, primarily through banner advertisements. Marketing services allow customers to place advertisements on particular areas of the Company’s mobile app, in particular formats and over particular periods of time. The marketing services typically last from several days to one year. The Company determines that the customer simultaneously receives and consumes benefits provided by the Company’s performance as the Company performs during the term of the contract. Revenues from marketing services are recognized ratably over the service period.

Membership

Membership revenues include subscription-based membership services and Pay-Per-Use Services. Subscription-based membership services enable individual users to enjoy additional functions and privileges over a period of time ranging from one month to one year. Pay-Per-Use services enable individual users to better promote themselves and raise their profile through advanced enhancement functions on a pay-per-service basis. The Group collects non-refundable membership service fee in advance and records it as deferred revenue. Subscription-based membership revenue is recognized on a straight-line basis over the membership period. Pay-Per-Use revenue is recognized at the point in time when control of promised service is transferred to the users.
Other revenue

Other revenue mainly consists of family planning service revenues, service fee from the provision of consulting service to healthcare and medical institutions and marketplace service revenues. Revenue is recognized when control of promised service is transferred to the customers in an amount of consideration to which the Group expects to be entitled to in exchange for those services.

Contract balances

Contract balances include accounts receivable and deferred revenue. The timing of revenue recognition and cash collections result in accounts receivable and contract liabilities (i.e. deferred revenue). The allowance for doubtful accounts reflects the Group’s best estimate of probable losses inherent in the accounts receivable balance. The activity in the allowance for doubtful accounts for the years presented is disclosed in Note 3.

Amounts collected on accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows.

Deferred revenue (a contract liability) is recognized when the Company has an obligation to transfer services to a customer for which the Company has received consideration related to the Group’s live streaming services, membership services and family planning services from the customer, or for which an amount of consideration is due from the customer.

The opening balance of deferred revenue as of January 1, 2018 and 2019 was RMB10,549,203 and RMB23,757,459, respectively. During the year ended December 31, 2018 and 2019, the Group recognized revenue in the amount of RMB10,549,203 and RMB23,757,459 which was included in the deferred revenue balance at the beginning of the year, respectively.

(o) Cost of revenues

Cost of revenues consists primarily of (i) revenue sharing fees paid to broadcasters, (ii) commission fees paid to mobile application stores and third party payment platforms, (iii) staff cost, rental and depreciation related to operation of its business, and (iv) other cost related to the business operation.

(p) Selling and marketing expenses

Selling and marketing expenses mainly consist of (i) advertising costs and promotion expenses, (ii) staff cost, rental and depreciation related to selling and marketing functions. Advertising costs, which consist primarily of online and offline advertisements, are expensed as incurred. The advertising costs were RMB57,960,585 and RMB60,136,876 for the years ended December 31, 2018 and 2019, respectively.

(q) Technology and development expenses

Technology and development expenses consist primarily of payroll and related expenses for technology and development professionals and technology infrastructure costs. Technology infrastructure costs include servers, bandwidth and cloud infrastructure costs, depreciation and utilities and other expenses related to technology and development functions. Technology and development expenses are expensed as incurred.

(r) General and administrative expenses

General and administrative expenses mainly consist of (i) staff cost, rental and depreciation related to general and administrative personnel, (ii) share-based compensation for management and administrative personnel, (iii) professional fees, and (iv) other corporate expenses.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Share-based compensation

The Group periodically grants share-based awards, mainly including share options to eligible employees and directors, which are subject to service and performance conditions.

Share-based payment transactions with employees are measured at the grant-date fair value, and are recognized as compensation expense, net of estimated forfeitures, over the vesting period, and when the Group considers that it is probable that the performance condition will be achieved.

Share-based compensation in relation to the share options is estimated using the Binominal Option Pricing Model. The determination of the fair value of share options is affected by the share price of the Group’s ordinary shares as well as the assumptions regarding a number of complex and subjective variables, including the expected share price volatility, risk-free interest rate, exercise multiple, forfeiture rate and expected dividend yield.

(t) Employee benefits

The Company’s subsidiaries and the VIE and VIE’s subsidiaries in PRC participate in a government mandated, multiemployer, defined contribution plan, pursuant to which certain retirement, medical, housing and other welfare benefits are provided to employees. PRC labor laws require the entities incorporated in China to pay to the local labor bureau a monthly contribution calculated at a stated contribution rate on the monthly basic compensation of qualified employees. The Group has no further commitments beyond its monthly contribution. Employee social benefits included as expenses in the accompanying consolidated statements of comprehensive loss amounted to RMB19,185,896 and RMB26,900,928 for the years ended December 31, 2018 and 2019, respectively.

(u) Income taxes

Current income taxes are provided on the basis of net income for financial reporting purposes, and adjusted for income and expense items which are not taxable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions.

Deferred income taxes are provided using the liability method. Under this method, deferred income tax assets and liabilities are recognized for the tax effects of temporary differences and are determined by applying enacted statutory tax rates that will be in effect in the period in which the temporary differences are expected to reverse to the temporary differences between the financial statements’ carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided to reduce the amount of deferred income tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred income tax assets will not be realized. The effect on deferred income taxes arising from a change in tax rates is recognized in the consolidated statements of comprehensive loss in the period of change.

The Group applies a “more likely than not” recognition threshold in the evaluation of uncertain tax positions. The Group recognizes the benefit of a tax position in its consolidated financial statements if the tax position is “more likely than not” to prevail based on the facts and technical merits of the position. Tax positions that meet the “more likely than not” recognition threshold are measured at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement. Unrecognized tax benefits may be affected by changes in interpretation of laws, rulings of tax authorities, tax audits, and expiry of statutory limitations. In addition, changes in facts, circumstances and new information may require the Group to adjust the recognition and measurement estimates with regard to individual tax positions. Accordingly, unrecognized tax benefits are periodically reviewed and re-assessed. Adjustments, if required, are recorded in the Group’s consolidated financial statements in the period in which the change that necessitates the adjustments occurs. The
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ultimate outcome for a particular tax position may not be determined with certainty prior to the conclusion of a tax audit and, in certain circumstances, a tax appeal or litigation process. The Group records interest and penalties related to unrecognized tax benefits (if any) in interest expenses and general and administrative expenses, respectively. As of December 31, 2018 and 2019, the Group did not have any unrecognized uncertain tax positions.

(v) Operating leases

The Group leases premises for offices under non-cancellable operating leases. Leases with escalated rent provisions are recognized on a straight-line basis commencing with the beginning of the lease term.

(w) Foreign currency translation and foreign currency risks

The Company’s reporting currency is Renminbi (“RMB”). The functional currency of the Company and its subsidiaries incorporated at Hong Kong S.A.R. and the United States is the United States dollars (“US$”). The functional currency of the Company’s PRC subsidiary, VIE and VIE’s subsidiaries is the RMB.

Transactions denominated in currencies other than the functional currency are remeasured into the functional currency at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in a foreign currency are remeasured into the functional currency using the applicable exchange rate at the balance sheet date. The resulted exchange differences are recorded as general and administrative expenses in the consolidated statements of comprehensive loss.

The financial statements of the Company and its subsidiaries incorporated at Hong Kong S.A.R., and the United States are translated from US$ into RMB. Assets and liabilities are translated into RMB using the applicable exchange rates at the balance sheet date. Equity accounts other than deficits generated in the current period are translated into RMB using the appropriate historical rates. Revenues, expenses, gains and losses are translated into RMB using the average exchange rates for the relevant period. The resulted foreign currency translation adjustments are recorded as a component of other comprehensive income or loss in the consolidated statements of comprehensive loss, and the accumulated foreign currency translation adjustments are recorded as a component of accumulated other comprehensive income or loss in the consolidated statements of changes in shareholders’ deficit.

The RMB is not a freely convertible currency. The PRC State Administration for Foreign Exchange, under the authority of the PRC government, controls the conversion of RMB to foreign currencies. The value of the RMB is subject to changes of central government policies and international economic and political developments affecting supply and demand in the China foreign exchange trading system market.

(x) Concentration and risk

Concentration of suppliers

The Group purchases all of its computing, storage and bandwidth services (“cloud services”) from two suppliers for the years ended December 31, 2018 and 2019. Although there are a limited number of cloud providers of the particular cloud services, management believes that other cloud providers could provide similar services on comparable terms. A change in cloud providers, however, could cause negatively impact on the business operation and a possible loss of sales, which would affect operating results adversely.

Concentration of credit risk

Financial instruments that potentially expose the Group to concentrations of credit risk consist principally of cash and cash equivalents, term deposits and accounts receivable.
The Group’s investment policy requires cash and cash equivalents, and term deposits to be placed with high-quality financial institutions and to limit the amount of credit risk from any one issuer. The Group regularly evaluates the credit standing of the counterparties or financial institutions.

The Group conducts credit evaluations on its customers prior to delivery of services. The assessment of customer creditworthiness is primarily based on historical collection records, research of publicly available information and customer on-site visits by senior management. Based on this analysis, the Group determines what credit terms, if any, to offer to each customer individually. If the assessment indicates a likelihood of collection risk, the Group will not deliver the services to the customer or require the customer to pay cash, post letters of credit to secure payment or to make significant down payments.

(y) Statutory reserves

In accordance with the PRC Company Laws, the Group’s PRC subsidiary, VIE and VIE’s subsidiaries must make appropriations from their after-tax profits as determined under the generally accepted accounting principles in the PRC (“PRC GAAP”) to non-distributable reserve funds including statutory surplus fund and discretionary surplus fund. The appropriation to the statutory surplus fund must be 10% of the after-tax profits as determined under PRC GAAP. Appropriation is not required if the statutory surplus fund has reached 50% of the registered capital of the PRC companies. Appropriation to the discretionary surplus fund is made at the discretion of the PRC companies.

The statutory surplus fund and discretionary surplus fund are restricted for use. They may only be applied to offset losses or increase the registered capital of the respective companies. These reserves are not allowed to be transferred to the Company by way of cash dividends, loans or advances, nor can they be distributed except for liquidation.

For the years ended December 31, 2018 and 2019, no appropriation was made to the statutory surplus fund and discretionary surplus fund by the Group’s PRC subsidiary, VIE and VIE’s subsidiaries as these PRC companies did not earn any after-tax profits as determined under PRC GAAP.

(c) Loss per share

Basic loss per share is computed by dividing net loss attributable to ordinary shareholders, considering the accretion of redemption feature related to the Group’s redeemable convertible preferred shares, by the weighted average number of ordinary shares outstanding during the period using the two-class method. Under the two-class method, net income is allocated between ordinary shares and other participating securities based on their participating rights. Net losses are not allocated to other participating securities if based on their contractual terms they are not obligated to share the losses.

Diluted loss per share is calculated by dividing net loss attributable to ordinary shareholders, as adjusted for the effect of dilutive ordinary equivalent shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary equivalent shares consist of ordinary shares issuable upon the conversion of the preferred shares, using the if-converted method, and shares issuable upon the exercise of share options using the treasury stock method. Ordinary equivalent shares are not included in the denominator of the diluted loss per share calculation when inclusion of such share would be anti-dilutive.

(aa) Segment reporting

The Group uses the management approach in determining its operating segments. The Group’s chief operating decision maker has been identified as the Chief Executive Officer, who reviews consolidated results.
when making decisions about allocating resources and assessing performance of the Group. For the purpose of internal reporting and management’s operation review, the Company’s Chief Executive Officer do not segregate the Group’s business by service lines. Management has determined that the Group has one operating segment, which is the mobile platform operations.

(bb) Recent accounting pronouncements

In February 2016, the FASB issued ASU No. 2016-02 (“ASU 2016-02”), Leases. ASU 2016-02 specifies the accounting for leases. For operating leases, ASU 2016-02 requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. ASU 2016-02 was further amended in November 2019 by ASU 2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2019-09 deferred the effective date of new leases standard. As a result, ASC 842, Leases, is effective for public companies for annual reporting periods, and interim periods within those years beginning after December 15, 2018. For all other entities, it is effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted. As the Group is an “emerging growth company” and elects to apply for the new and revised accounting standards at the effective date for a private company, ASU 2016-02 will be applied for the fiscal year ending December 31, 2021. The Group is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In June 2016, the FASB amended ASU 2016-13, Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments. ASU 2016-13 was further amended in November 2019 by ASU 2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842). As a result, ASC 326, Financial Instruments — Credit Losses is effective for public companies for annual reporting periods, and interim periods within those years beginning after December 15, 2019. For all other entities, it is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. As the Group is an “emerging growth company” and elects to apply for the new and revised accounting standards at the effective date for a private company, ASU 2016-13 will be applied for the fiscal year ending December 31, 2023. The Group is currently evaluating the impact of this new guidance on its consolidated financial statements.

In August 6, 2016, the FASB issued ASU 2016-15, Statement of Cash Flows—Classification of Certain Cash Receipts and Payments. The ASU provides guidance on the classification of certain cash receipts and payments including debt prepayment or debt issuance costs and cash payments for contingent considerations. The ASU also provides clarification on the application of the predominance principle outlined in ASC230. The effective date for public entities will be annual periods beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The Group adopted this ASU beginning January 1, 2018. The adoption of this ASU does not have any impact on the consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. ASU 2018-13 modifies certain disclosure requirements on fair value measurements, including (i) clarifying narrative disclosure regarding measurement uncertainty from the use of unobservable inputs, if those inputs reasonably could have been different as of the reporting date, (ii) adding certain quantitative disclosures, including (a) changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and (b) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and (iii) removing certain fair value measurement disclosure requirements, including (a) the amount of and reasons for transfers between Level 1 and
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Level 2 of the fair value hierarchy, (b) the policy for timing of transfers between levels of the fair value hierarchy and (c) the valuation processes for Level 3 fair value measurements. The amendments in ASU 2018-13 are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Group is currently evaluating the effect of the disclosure requirements of ASU 2018-13 will have on its consolidated financial statements and does not expect the impact to be material.

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consisted of the following:

<table>
<thead>
<tr>
<th>Accounts receivable</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>in RMB</td>
<td>in RMB</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>11,347,734</td>
<td>1,217,559</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(1,857,463)</td>
<td>—</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>9,490,271</td>
<td>1,217,559</td>
</tr>
</tbody>
</table>

The movements of the allowance for doubtful accounts were as follows:

<table>
<thead>
<tr>
<th>Allowance for doubtful accounts</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of the year</td>
<td>970,453</td>
<td>1,857,463</td>
</tr>
<tr>
<td>Additions charged to bad debt expense</td>
<td>887,010</td>
<td>592,717</td>
</tr>
<tr>
<td>Write-off of bad debt allowance</td>
<td>—</td>
<td>(2,450,180)</td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>1,857,463</td>
<td>—</td>
</tr>
</tbody>
</table>

4. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets at December 31, 2018 and 2019 consisted of the following:

<table>
<thead>
<tr>
<th>Prepayments and Other Current Assets</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>in RMB</td>
<td>in RMB</td>
</tr>
<tr>
<td>Receivable from third party payment platforms</td>
<td>12,920,095</td>
<td>21,259,208</td>
</tr>
<tr>
<td>Deferred IPO costs*</td>
<td></td>
<td>8,489,966</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>7,080,891</td>
<td>2,368,175</td>
</tr>
<tr>
<td>Deductible input VAT</td>
<td>6,052,920</td>
<td>4,703,997</td>
</tr>
<tr>
<td>Others**</td>
<td>12,692,091</td>
<td>15,664,584</td>
</tr>
<tr>
<td>Prepayments and Other Current Assets</td>
<td>38,745,997</td>
<td>52,485,930</td>
</tr>
</tbody>
</table>

* Direct costs incurred by the Company attributable to its proposed IPO of ordinary shares in the United States have been deferred and recorded as deferred IPO costs and will be offset against the gross proceeds received from such offering.

** Others mainly include prepaid annual software service fees, network service fees and rental fees.
5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

<table>
<thead>
<tr>
<th>As of December 31,</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RMB</td>
<td>RMB</td>
</tr>
<tr>
<td>Office and electronic equipment</td>
<td>5,714,602</td>
<td>7,758,859</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>4,726,174</td>
<td>8,155,554</td>
</tr>
<tr>
<td><strong>Property and Equipment</strong></td>
<td><strong>10,440,776</strong></td>
<td><strong>15,914,413</strong></td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(5,745,009)</td>
<td>(7,972,327)</td>
</tr>
<tr>
<td><strong>Property and Equipment, net</strong></td>
<td><strong>4,695,767</strong></td>
<td><strong>7,942,086</strong></td>
</tr>
</tbody>
</table>

Depreciation expenses on property and equipment were allocated to the following expense items:

<table>
<thead>
<tr>
<th>As of December 31,</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RMB</td>
<td>RMB</td>
</tr>
<tr>
<td>Cost of revenues</td>
<td>591,391</td>
<td>525,956</td>
</tr>
<tr>
<td>Selling and marketing expenses</td>
<td>881,679</td>
<td>997,224</td>
</tr>
<tr>
<td>Technology and development expenses</td>
<td>713,799</td>
<td>845,318</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>241,865</td>
<td>251,184</td>
</tr>
<tr>
<td><strong>Total depreciation expenses</strong></td>
<td><strong>2,428,734</strong></td>
<td><strong>2,619,682</strong></td>
</tr>
</tbody>
</table>

6. INVESTMENT SECURITIES

Investment securities consisted of the following:

<table>
<thead>
<tr>
<th>As of December 31,</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RMB</td>
<td>RMB</td>
</tr>
<tr>
<td>Available-for-sale debt securities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mengmei Life Pty. Ltd (“Mengmei”)(a)</td>
<td>21,559,157</td>
<td>23,523,746</td>
</tr>
<tr>
<td><strong>Equity securities with readily determinable fair value:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Warrant to purchase Mengmei’s interests(a)</td>
<td>278,742</td>
<td>5,302</td>
</tr>
<tr>
<td>Others.</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>21,887,899</strong></td>
<td><strong>23,579,048</strong></td>
</tr>
</tbody>
</table>

(a) On September 7, 2018, the Group entered into an investment agreement with Mengmei to acquire 9,375,000 redeemable convertible preferred shares, which represented 8.15% equity interest of Mengmei on a fully-diluted basis, in exchange for a cash consideration of US$3 million (equivalent to RMB20,587,500). The investment was classified as AFS debt security because the investment contains substantive liquidation preference and redemption provision and is redeemable at the option of the investor. The Group recorded the investment at fair value. Unrealized gain of US$256,068 (equivalent to RMB1,693,634) and US$230,731 (equivalent to RMB1,591,098), net of nil income taxes were recorded in other comprehensive income for the years ended December 31, 2018 and 2019, respectively.

In connection with this transaction, the Group also received a warrant to purchase certain number of shares in a single transaction or a series of related transactions from Mengmei’s founders within three years from the issuance date, so as to enable the Group holding no less than 51% of all equity interests of Mengmei on a fully-diluted basis. The exercise price of the warrant was determined based on the 100% equity value of Mengmei between US$100,000,000 and US$200,000,000. The warrant is an equity security with readily determinable fair value.
6. INVESTMENT SECURITIES (Continued)

Losses of US$74,185 (equivalent to RMB490,661) and US$39,854 (equivalent to RMB274,829) were recorded in changes in fair value of financial instruments for the years December 31, 2018 and 2019, respectively.

For initial recognition, the Group allocated the total consideration to AFS debt security and warrant based on their relative fair values.

7. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>As of December 31</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2019</td>
</tr>
<tr>
<td>Advertising and marketing fees payable</td>
<td>23,770,556</td>
<td>14,843,734</td>
</tr>
<tr>
<td>Accrued payroll and welfare</td>
<td>10,870,040</td>
<td>17,176,014</td>
</tr>
<tr>
<td>Cash collected on behalf of service providers*</td>
<td>8,029,064</td>
<td>16,599,357</td>
</tr>
<tr>
<td>Technology supporting fees payable</td>
<td>9,021,829</td>
<td>4,272,662</td>
</tr>
<tr>
<td>Accrued IPO costs</td>
<td>—</td>
<td>6,227,056</td>
</tr>
<tr>
<td>Rebate to advertising customers</td>
<td>2,366,585</td>
<td>3,899,282</td>
</tr>
<tr>
<td>Interest payable</td>
<td>—</td>
<td>2,695,890</td>
</tr>
<tr>
<td>Other taxes payable</td>
<td>1,143,564</td>
<td>2,662,427</td>
</tr>
<tr>
<td>Deposits</td>
<td>1,100,000</td>
<td>1,070,000</td>
</tr>
<tr>
<td>Others</td>
<td>1,703,073</td>
<td>2,412,151</td>
</tr>
<tr>
<td><strong>Accrued Expenses and Other Current Liabilities</strong></td>
<td>58,004,711</td>
<td>71,768,573</td>
</tr>
</tbody>
</table>

* This is the cash the Company received on behalf of the service providers from the customers for the family planning services.

8. CONVERTIBLE DEBT

On March 9, 2017, the Company entered into a convertible debt agreement with ShanShui CongRong Media Investment Co., Ltd (“ShanShui CongRong”), a third party investor, to borrow a one-year loan in the amount of USD3.0 million. During the period of the loan, ShanShui CongRong was entitled to convert all of the outstanding principal of the convertible debt into 116,640 shares of Series C-2 Redeemable Convertible Preferred Shares (“Series C-2 Preferred Shares”) of the Company. The interest rate of this convertible debt is 5% simple interest per annum. However, no interest shall be accrued on the outstanding principal amount, if any portion of the principal amount is converted to the Company’s Series C-2 Preferred Shares. The conversion price is US$25.72 per share. On March 8, 2018, the term of maturity date of this convertible debt was extended to March 8, 2020.

The Company concluded the embedded conversion option did not need to be bifurcated pursuant to ASC 815 because these terms do not permit net settlement, nor they can be readily settled net by a means outside the contract, nor they can provide for delivery of an asset that puts the holders in a position not substantially different from net settlement. The Company further determined that there was no beneficial conversion feature attributable to the convertible debt because the initial effective conversion price of the convertible debt was higher than the fair value of the Company’s Series C-2 Preferred Shares at the commitment date. The Company elected to measure the convertible debt in its entirety at fair value with changes in fair value recognized in earnings in consolidated statement of comprehensive loss.

The Company adopted a scenario-weighted average method to estimate fair value of the convertible debt based on the probability of each scenario and pay-off of convertible debt under each scenario. Changes in fair value of convertible debt in the amount of RMB3,553,249 and RMB8,749,608 for the years ended December 31, 2018 and 2019, respectively, were recognized in the consolidated statements of comprehensive loss.

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8. CONVERTIBLE DEBT (Continued)

On November 20, 2019, the Group and ShanShui CongRong agreed to terminate the convertible debt agreement, pursuant to which the principal amount of USD3.0 million (equivalent to RMB20.0 million) was fully paid in November 2019 and the accrued interest of RMB2.7 million will be paid by the end of the first quarter of 2020. The difference in the amount of USD1.3 million (equivalent to RMB9.0 million) between the settlement amount of USD3.2 million (equivalent to RMB22.7 million) and the carrying amount of USD 4.5 million (equivalent to RMB31.8 million) as at November 20, 2019 was recognized as a gain on extinguishment of a convertible debt for the year ended December 31, 2019. The Company has paid off the interest in the amount of RMB2.7 million on March 9, 2020.

9. MEZZANINE EQUITY

Series A Convertible Preferred Shares

On April 27, 2013, the Company entered into a share purchase agreement with an investor, pursuant to which the Company issued 1,275,000 Series A convertible preferred shares (“Series A Preferred Shares”) at US$0.38 per share for an aggregated cash consideration of US$482,253 (equivalent to RMB3,000,000).

On November 4, 2014, the Company, the shareholder of the Series A Preferred Shares and a new investor entered into a share transfer agreement, pursuant to which the shareholder of Series A Preferred Shares sold 124,138 Series A Preferred Shares to the new investor, and the shares were immediately re-designated into Series A-1 redeemable convertible preferred shares (“Series A-1 Preferred Shares ”).

On February 8, 2018, the Company entered into a share purchase agreement with an investor pursuant to which the Company issued 288,240 Series A Preferred Shares at US$27.75 per share for an aggregated cash consideration of US$8,000,000 (equivalent to RMB50,753,200).

The rights, preferences and privileges of the Series A Preferred Shares are as follows:

Conversion Rights

Each Series A Preferred Shares is convertible, at the option of the holder, at any time after the issuance date according to a conversion ratio, subject to adjustments for dilution, including but not limited to stock splits, stock dividends and certain other events. The conversion price of Series A Preferred Shares is the same as its original issuance price and no adjustments to conversion price have occurred. As of December 31, 2018, each Series A Preferred Shares is convertible into one ordinary share.

Each Series A Preferred Shares shall automatically be converted into Ordinary Shares at a 1 to 1 initial conversion ratio immediately upon the closing of a Qualified Initial Public Offering (“Qualified IPO”), if the Qualified IPO is approved by the preferred shareholders as defined below.

The “Qualified IPO” was defined as within four anniversary of the Closing Date (January 26, 2018), a firm commitment underwritten public offering of the Ordinary Shares (or securities representing Ordinary Shares) in the United States, Hong Kong S.A.R. or Mainland China (excluding the National Equities Exchange and Quotations), or other jurisdiction with a pre-offering valuation of at least US$850,000,000 and raising at least US$100,000,000 proceeds. The number of shares to be issued by the Company shall be negotiable at the time of the Qualified IPO and after the expiration of the lock-up period after the Qualified IPO in such jurisdiction and subject to the approval by the shareholders of at least ninety-two (92%) of the preferred shares (voting together as a single class and calculated on an as-converted basis).

Voting Rights

Each Series A Preferred Shares shall be entitled to that number of votes corresponding to the number of ordinary shares on an as-converted basis. The shareholders of Series A Preferred Shares shall vote separately as a
9. MEZZANINE EQUITY (Continued)

class with respect to certain specified matters. Otherwise, the shareholders of Series A Preferred Shares, Series A-1, Series B, Series C, Series C-1, Series D redeemable convertible preferred shares, and ordinary shares shall vote together as a single class.

Liquidation Preferences

In the event of any liquidation, dissolution or winding up of the Company, or upon occurrence of a Liquidation Event as defined in the Sixth Amended And Restated Memorandum And Articles Of Association, either voluntary or involuntary, and after the distribution to the shareholders of Series D Preferred Shares, Series C-1 Preferred Shares, Series B Preferred Shares and Series A-1 Preferred Shares, the shareholders of Series A Preferred Shares shall be entitled to receive, on a pro rata, pari passu basis but prior to any distribution to the shareholders of the Ordinary Shares or any other class or series of shares then outstanding, an amount per Series A Preferred Shares equal to the greater of (i) one hundred and twenty percent (120%) of Series A Preferred Shares issue price, plus all declared but unpaid dividends thereon (as adjusted), and (ii) the aggregate amount that each such Series A Preferred Shares shall be entitled to receive from the total proceeds in connection with such liquidation, dissolution, winding up, or liquidation event calculated on a pro rata basis and as-converted basis.

Drag-along rights

In the event that the shareholders of at least ninety-two (92%) of the preferred shares (“Drag-Along Shareholders”, i.e. the preferred shares in the capital of the Company with a par value of US$0.0001 per share, including Series A Preferred Shares, Series A-1 Preferred Shares, Series B Preferred Shares, Series C Preferred Shares, Series C-1 Preferred Shares and Series D Preferred Shares), voting together as a single class and calculated on an as-converted basis, approve a transaction that qualifies as a Liquidation Event (“Drag-Along Sale”) and the valuation of the Company immediately prior to the Drag-Along Sale reaches US$2,500,000,000 or more in the contemplated Drag-Along Sale, then, upon written notice from such Drag-Along Shareholders requesting them to do so, each of the other shareholders of the Company shall (i) vote, or give its written consent with respect to, all the Equity Securities held by them in favor of such proposed Drag-Along Sale and in opposition of any proposal that could reasonably be expected to delay or impair the consummation of any such proposed Drag-Along Sale; (ii) sell, transfer, and/or exchange, as the case may be, all of its Equity Securities in such Drag-Along Sale to such purchaser on the same terms and conditions as were agreed by the Drag-Along Shareholders; (iii) refrain from exercising any dissenters’ rights or rights of appraisal under applicable law at any time with respect to or in connection with such proposed Drag-Along Sale; and (iv) take all actions reasonably necessary to consummate the proposed Drag-Along Sale, including without limitation amending the then existing Articles. If any Dragged Shareholder does not elect to vote, or give its written consent with respect to such proposed Drag-Along Sale, such Dragged Shareholder shall be obliged to purchase all the shares held by the Drag-Along Shareholders at the price. A Drag-Along Sale shall be deemed as a liquidation event.

The Company classified Series A Preferred Shares as mezzanine equity instead of permanent equity on the consolidated balance sheet because of the existence of such drag-along rights. Triggering of this drag-along right results in a deemed liquidation of the Company at the option of a majority of the shareholders of preferred shares with a required distribution of the transaction proceeds in accordance with the Company’s Memorandum and Articles of Association.

The Company concluded the embedded conversion option in the Series A Preferred Shares did not need to be bifurcated pursuant to ASC 815 because these terms do not permit net settlement, nor they can be readily settled net by a means outside the contract, nor they can provide for delivery of an asset that puts the holders in a position not substantially different from net settlement. The Company also determined that there was no beneficial conversion feature attributable to Series A Preferred Shares because the initial effective conversion
prices of Series A Preferred Shares were higher than the fair value of the Company’s ordinary shares at the relevant commitment dates. The fair value of the Company’s ordinary shares on the commitment date was estimated by management with the assistance of an independent valuation firm.

The Series A Preferred Shares were recorded initially at fair value. The excess of the cash consideration in the amount of US$8,000,000 over the fair value of Series A Preferred Shares at issuance dates in 2018 in the amount of US$4,262,771, was in the amount of US$3,737,229 (equivalent to RMB23,709,541) and recorded in additional paid in capital.

The Company’s Series A Preferred Shares activities for the years ended December 31, 2018 and 2019 are as follows:

<table>
<thead>
<tr>
<th>Amount</th>
<th>RMB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as of January 1, 2018</td>
<td>2,707,910</td>
</tr>
<tr>
<td>Issuance of preferred shares</td>
<td>27,043,659</td>
</tr>
<tr>
<td><strong>Balance as of December 31, 2018 and 2019</strong></td>
<td><strong>29,751,569</strong></td>
</tr>
</tbody>
</table>

**Series A-1, Series B, Series C, Series C-1 and Series D Redeemable Convertible Preferred Shares (collectively “Redeemable Convertible Preferred Shares”):**

On May 15, 2014, the Company entered into a share purchase agreement with an investor, pursuant to which the Company issued 2,000,000 Series A-1 Preferred Shares at US$0.88 per share for an aggregated cash consideration of US$1,764,700 (equivalent to RMB10,877,611).

On October 30, 2014, the Company entered into a share purchase agreement with an investor, pursuant to which the Company issued 1,862,069 Series B redeemable convertible preferred shares (“Series B Preferred Shares”) at US$6.63 per share for an aggregated cash consideration of US$12,350,000 (equivalent to RMB75,899,395).

On November 4, 2014, 124,138 Series A Preferred Shares were re-designated into Series A-1 Preferred Shares.

On March 18, 2016 and April 8, 2016, the Company entered into share purchase agreement with a group of investors, pursuant to which the Company issued 1,091,391 Series C redeemable convertible preferred shares (“Series C Preferred Shares”) at US$12.88 per share for an aggregated cash consideration of US$14,061,477 (equivalent to RMB90,876,514).

On May 9, 2016, the Company issued convertible promissory notes in the amount of US$1,999,983 (equivalent to RMB13,020,889) to certain investors, which were subsequently converted into 155,230 Series C Preferred Shares upon the issuance of Series C-1 redeemable convertible preferred shares (“Series C-1 Preferred Shares”) on June 27, 2016.

On June 27, 2016, the Company entered into a share purchase agreement with certain investors, pursuant to which the Company issued 745,114 Series C-1 Preferred Shares at US$16.10 per share for an aggregated cash consideration of US$12,000,000 (equivalent to RMB79,650,000). On June 27, 2016, a shareholder of the Series A-1 Preferred Shares sold 232,847 Series A-1 Preferred Shares to a holder of the Series C-1 Preferred Shares, and the shares were immediately re-designated into Series C-1 Preferred Shares at issuance price of US$12.88 per share.
9. MEZZANINE EQUITY (Continued)

From June 9, 2017 to November 2, 2017, the Company entered into share purchase agreements with a group of investors ("Series D Preferred Shareholders"), and pursuant to which the Company issued 1,080,901 Series D redeemable convertible preferred shares ("Series D Preferred Shares") at US$27.75 per share for an aggregated cash consideration of US$29,999,974 (equivalent to RMB200,622,325) in 2017. The issuance costs for the above Series D Preferred Shares were US$740,313 (equivalent to RMB4,950,781). From January 26, 2018 to November 1, 2018, the Company issued 1,062,885 Series D Preferred Shares at US$27.75 per share for an aggregated cash consideration of US$29,499,990 (equivalent to RMB196,648,046) to a group of Series D Preferred Shareholders. The issuance costs for the Series D Preferred Shares issued in 2018 were US$1,045,254 (equivalent to RMB6,913,310).

The rights, preferences and privileges of the Series A-1 Preferred Shares, Series B Preferred Shares, Series C Preferred Shares, Series C-1 Preferred Shares, and Series D Preferred Shares are as follows:

**Redemption Rights**

If the Company fails to complete the Qualified IPO prior to the fourth year anniversary of January 26, 2018, the shareholders of Series D Preferred Shares shall be entitled to request the Company to redeem the Series D Preferred Shares in cash out of funds legally available therefor. In addition, if any of the entities within the Group or Mr. Baoli Ma (the “Founder”) materially breaches any of the Transaction Agreements (as respectively defined in the Series D Share Purchase Agreements), the shareholders of Series D Preferred Shares shall be entitled to request the Company to redeem the Series D Preferred Shares in cash out of funds legally available therefor. Upon the completion of the redemption of the Series D Preferred Shares, shareholders of other Redeemable Convertible Preferred Shares shall also be entitled to request the Company to redeem their shares.

In addition, if the Company fails to complete the Qualified IPO prior to the respective fourth year anniversaries of the respective closing dates of Series C-1 Preferred Shares, Series C Preferred Shares, and Series B Preferred Shares together with Series A-1 Preferred Shares, respective (the “Redemption Start Date”), shareholders shall be entitled to request the Company to redeem in cash out of funds legally available therefor. When any of such shareholders request to redeem their shares, shareholders with higher priority of preference shall also be entitled to request the Company to redeem in cash out of funds legally available therefor. The original Redemption Start Date was November 4, 2018 for Series B Preferred Shares together with Series A-1 Preferred Shares, April 8, 2020 for Series C Preferred Shares, June 27, 2020 for Series C-1 Preferred Shares and January 26, 2022 for Series D Preferred Shares. On November 11, 2019, Series A-1, Series B, Series C and Series C-1 Preferred shareholders entered into an amendment to the redemption rights with the Company and agreed to extend the Redemption Start Date to the earlier of the following: (1) June 30, 2021, if the Company has not completed a Qualified IPO by then, (2) official termination of the IPO process of the Company, (3) the occurrence of liquidation, winding up or dissolution of the Company or substantive change of the principal business of the Company, and (4) any Preferred Share is redeemed by the Company.

The redemption preference from high priority to low priority is as follows in sequence: Series D Preferred Shares, Series C-1 Preferred Shares, Series C Preferred Shares, and Series B Preferred Shares together with Series A-1 Preferred Shares.

For Series D Preferred Shares, the redemption price shall be the greater of (i) sum of the issue price plus all declared but unpaid dividends, and a compounded ten percent (10%) per annum return measured from the issuance date to actual payment date of the redemption; (ii) the fair market value as determined through an independent appraisal performed by a reputable appraisal firm mutually agreed upon by the Company and the majority shareholders of Series D Preferred Shares; provided that such valuation shall not take into account any liquidity or minority interest discounts. The redemption price shall be proportionally adjusted for share splits, share consolidations, share dividends, recapitalizations and the like.

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For Series C-1 Preferred Shares, Series C Preferred Shares, and Series B Preferred Shares, the redemption price shall be the greater of (i) sum of the respective issue prices plus all declared but unpaid dividends, and a compounded eight percent (8%) per annum return measured from the respective issuance dates to actual payment dates of the redemption; (ii) the fair market value of respective preferred shares as determined through an independent appraisal performed by a reputable appraisal firm mutually agreed upon by the Company and the respective majority shareholders of preferred shares; provided that such valuation shall not take into account any liquidity or minority interest discounts. The redemption price shall be proportionally adjusted for share splits, share consolidations, share dividends, recapitalizations and the like.

For Series A-1 Preferred Shares, the redemption price shall be sum of the issue price plus all declared but unpaid dividends, and a compounded eight percent (8%) per annum return measured from the issuance date to actual payment date of the redemption.

The Company determines whether an amendment to the redemption rights of Series A-1, Series B, Series C and Series C-1 Preferred shareholders represents an extinguishment based on a fair value approach. If the fair value of the preferred shares immediately before and after the amendment is significantly different (by more than 10%), the amendment represents an extinguishment. The Company has determined that the amendment to the redemption rights of Series A-1, Series B, Series C and Series C-1 Preferred Shares did not represent an extinguishment, and therefore modification accounting was applied by analogy to the modification guidance contained in ASC718-20, Compensation—Stock Compensation. The Company accounts for modifications that result in an increase to the fair value of the modified preferred shares as a deemed dividend reconciling net loss to net loss attributable to ordinary shareholders as there is a transfer of value from the ordinary shareholders to the preferred shareholders. Modifications that result in a decrease in the fair value of the modified preferred shares were not recognized.

**Conversion Rights**

Each Redeemable Convertible Preferred Share is convertible, at the option of the shareholder, at any time after the issuance date according to a conversion ratio, subject to adjustments for dilution, including but not limited to stock splits, stock dividends and certain other events. Each Redeemable Convertible Preferred Share is convertible into a number of ordinary shares determined by dividing the applicable original issuance price by the conversion price. The conversion price of each Redeemable Convertible Preferred Share is the same as its original issuance price and no adjustments to conversion price have occurred. As of December 31, 2018, each Redeemable Convertible Preferred Share is convertible into one ordinary share.

Each Redeemable Convertible Preferred Share shall automatically be converted into Ordinary Shares at a 1-to-1 initial conversion ratio immediately upon the closing of the Qualified IPO.

**Voting Rights**

Each Redeemable Convertible Preferred Share shall be entitled to that number of votes corresponding to the number of ordinary shares on an as-converted basis. The shareholders of Redeemable Convertible Preferred Shares shall vote separately as a class with respect to certain specified matters. Otherwise, the shareholders of Redeemable Convertible Preferred Shares, convertible preferred shares and ordinary shares shall vote together as a single class.

**Dividend Rights**

Each holder of Redeemable Convertible Preferred Shares shall be entitled to receive dividends at the rate of eight percent (8%) per annum of the applicable issue price. Such dividends shall be payable only when, as, and if
declared by the Board of Directors and shall be non-cumulative. Dividend rights preference is as follows in sequence: Series D Preferred Shares, Series C-1 Preferred Shares, Series C Preferred Shares, Series B Preferred Shares, and Series A-1 Preferred Shares.

After the preferential dividends relating to the Redeemable Convertible Preferred Shares and dividends related to the Series A Preferred Shares have been paid in full or declared and set apart in any fiscal year of the Company, any additional dividends out of funds legally available therefor may be declared in that fiscal year for the Ordinary Shares and, if such additional dividends are declared, then such additional dividends shall be declared pro rata on the Ordinary Shares and all Preferred Shares on an as-converted basis.

No dividends or other distributions shall be made or declared, whether in cash, in property, or in any other shares of the Company, with respect to any other class or series of shares of the Company, unless and until the dividends of preferred shares with higher priority of preference has been paid in full.

**Liquidation Preferences**

In the event of any liquidation, dissolution or winding up of the Company, or upon occurrence of a Liquidation Event as defined in the Sixth Amended And Restated Memorandum And Articles Of Association, either voluntary or involuntary, shareholders of Series D Preferred Shares shall be entitled to receive a per share amount equal to the greater of (i) one hundred and fifty percent (150%) of the issuance price, plus all declared but unpaid dividends thereon, (ii) the sum of one hundred percent (100%) of the issuance price, plus a compounded ten percent (10%) per annum return measured from the actual payment date of purchase price to actual payment date of liquidation amount, and (iii) the aggregate amount that each such Series D Preferred Share shall be entitled to receive from the total proceeds in connection with such liquidation, dissolution, winding up, or Liquidation Event calculated on a pro rata basis and as-converted basis.

In the event of any liquidation, dissolution or winding up of the Company, or upon occurrence of a Liquidation Event as defined in the Sixth Amended And Restated Memorandum And Articles Of Association, either voluntary or involuntary, shareholders of Series C-1 Preferred Shares, Series C Preferred Shares, and Series B Preferred Shares shall be entitled to receive a per share amount equal to the greater of (i) one hundred and fifty percent (150%) of the issuance price, plus all declared but unpaid dividends thereon, and (ii) the aggregate amount that each such preferred share shall be entitled to receive from the total proceeds in connection with such liquidation, dissolution, winding up, or Liquidation Event calculated on a pro rata basis and as-converted basis.

In the event of any liquidation, dissolution or winding up of the Company, or upon occurrence of a Liquidation Event as defined in the Sixth Amended And Restated Memorandum And Articles Of Association, either voluntary or involuntary, shareholders of Series A-1 Preferred Shares shall be entitled to receive a per share amount equal to the greater of (i) one hundred and twenty percent (120%) of the issuance price, plus all declared but unpaid dividends thereon, and (ii) the aggregate amount that each such preferred share shall be entitled to receive from the total proceeds in connection with such liquidation, dissolution, winding up, or Liquidation Event calculated on a pro rata basis and as-converted basis.

Liquidation preference is as follows in sequence: Series D Preferred Shares, Series C-1 Preferred Shares, Series C Preferred Shares, Series B Preferred Shares, and Series A-1 Preferred Shares together with Series A Preferred Shares.

**Drag-along rights**

Drag-along rights of the Redeemable Convertible Preferred Shares are the same as the rights of Series A Preferred Shares.
9. MEZZANINE EQUITY (Continued)

The Company classified the Redeemable Convertible Preferred Shares as mezzanine equity in the consolidated balance sheet as they are contingently redeemable upon the occurrence of certain events outside of the Company’s control.

The Company concluded the embedded conversion and redemption option of the Redeemable Convertible Preferred Shares did not need to be bifurcated pursuant to ASC 815 because these terms do not permit net settlement, nor they can be readily settled net by a means outside the contract, nor they can provide for delivery of an asset that puts the holders in a position not substantially different from net settlement.

The Company also determined that there was no beneficial conversion feature attributable to the Redeemable Convertible Preferred Shares because the initial effective conversion prices of these Redeemable Convertible Preferred Shares were higher than the fair value of the Company’s ordinary shares at the relevant commitment dates. The fair value of the Company’s ordinary shares on the commitment date was estimated by management with the assistance of an independent valuation firm.

The Redeemable Convertible Preferred Shares were recorded initially at fair value, net of issuance costs. The Company recognized changes in the redemption value immediately as they occur and adjust the carrying value of the Redeemable Convertible Preferred Shares to equal the redemption value at the end of each reporting period, as if it were also the redemption date for the Redeemable Convertible Preferred Shares.

The excess of fair value of Series D Preferred Shares issued in 2018 in the amount of US$29,732,090, over the cash proceeds of US$29,499,990 was US$232,100 and in substance a transfer of wealth from ordinary shareholders to the holders of Preferred Shares and therefore was treated as deemed dividend to the shareholders of the Redeemable Convertible Preferred Shares.

The Company’s Redeemable Convertible Preferred Shares activities for the years ended December 31, 2018 and 2019 consist of the following:

<table>
<thead>
<tr>
<th>Series</th>
<th>Preferred Shares</th>
<th>Series</th>
<th>Preferred Shares</th>
<th>Series</th>
<th>Preferred Shares</th>
<th>Series</th>
<th>Preferred Shares</th>
<th>Series</th>
<th>Preferred Shares</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RMB</td>
<td></td>
<td>RMB</td>
<td></td>
<td>RMB</td>
<td></td>
<td>RMB</td>
<td></td>
<td>RMB</td>
<td></td>
</tr>
<tr>
<td>Balance as of January 1, 2018</td>
<td>14,421,687</td>
<td>126,523,152</td>
<td>120,091,743</td>
<td>110,232,273</td>
<td>202,588,261</td>
<td>573,857,116</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issuance of preferred shares</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>196,648,046</td>
<td>196,648,046</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments of issuance cost</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(6,913,310)</td>
<td>(6,913,310)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accretion of redeemable convertible preferred shares</td>
<td>1,167,825</td>
<td>102,470,738</td>
<td>49,981,880</td>
<td>33,756,653</td>
<td>49,237,802</td>
<td>236,614,898</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency translation adjustment</td>
<td>770,139</td>
<td>10,231,356</td>
<td>7,929,875</td>
<td>6,822,117</td>
<td>19,204,338</td>
<td>44,957,825</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance as of December 31, 2018</td>
<td>16,359,651</td>
<td>239,225,246</td>
<td>178,003,498</td>
<td>150,811,043</td>
<td>460,765,137</td>
<td>1,045,164,575</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accretion and modification of redeemable convertible preferred shares</td>
<td>1,315,008</td>
<td>237,680,316</td>
<td>144,659,627</td>
<td>104,388,417</td>
<td>142,962,195</td>
<td>631,005,563</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency translation adjustment</td>
<td>284,668</td>
<td>6,706,446</td>
<td>4,615,264</td>
<td>3,698,609</td>
<td>9,251,062</td>
<td>24,556,049</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance as of December 31, 2019</td>
<td>17,959,327</td>
<td>483,612,008</td>
<td>327,278,389</td>
<td>258,898,069</td>
<td>612,978,394</td>
<td>1,700,726,187</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

10. ORDINARY SHARES

Upon incorporation in 2013, the Company’s authorized ordinary shares were 500,000,000 shares with a par value of US$0.0001 per share. The number of authorized ordinary shares was reduced to 489,944,215 as of December 31, 2018, after the issuance of 9,560,830 preferred shares and 494,955 preferred shares authorized but not yet issued since the Company’s incorporation. The number of shares issued and outstanding was 5,614,840 as of December 31, 2018 and 2019.

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11. SHARE-BASED COMPENSATION

On March 11, 2015, the Board of Directors of the Company approved and adopted the 2015 Stock Incentive Plan (the “Plan”), under which the Company reserves 1,551,724 shares to motivate directors, employees and consultants of the Group. Stock options granted to an employee under the 2015 Plan are generally subject to a four-year service schedule, under which 25% of the option shall vest on the first anniversary of the vesting commencement date, and the remaining portion shall vest monthly over subsequent 36 months on a pro-rata basis. In addition, no options can be exercised until the Company completes an initial public offering.

The following table sets forth the stock options activity for the years ended December 31, 2018 and 2019:

<table>
<thead>
<tr>
<th></th>
<th>Number of shares</th>
<th>Weighted average exercise price</th>
<th>Weighted remaining contractual years</th>
<th>Aggregate intrinsic value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Outstanding at January 1, 2018</strong></td>
<td>790,356</td>
<td>0.01</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Granted</td>
<td>697,268</td>
<td>0.01</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repurchased</td>
<td>(288,240)</td>
<td>0.01</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forfeited</td>
<td>(215,263)</td>
<td>0.01</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>984,121</td>
<td>0.01</td>
<td>6.19</td>
<td>17,622,275</td>
</tr>
<tr>
<td><strong>Outstanding at December 31, 2018</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Granted</td>
<td>156,623</td>
<td>0.01</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forfeited</td>
<td>(56,199)</td>
<td>0.01</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,084,545</td>
<td>0.01</td>
<td>5.19</td>
<td>40,882,032</td>
</tr>
</tbody>
</table>

On April 12, 2018, the Board of Directors of the Company approved to repurchase 288,240 unvested share options from BlueCity Media Limited, which is controlled by Mr. Baoli Ma, founder, Director and Chief Executive Officer of the Company, with consideration of US$8 million (equivalent to RMB50,267,200). RMB50,267,200 was recognized in general and administrative expenses as share based compensation expenses.

As of December 31, 2018 and 2019, no share options were exercisable, since their exercisability is subject to the completion of an initial public offering of the Company.

The fair value of the options is estimated on the dates of grant using the binomial option pricing model with the following key assumptions used:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk-free rate of return (per annum)</td>
<td>2.56%-2.80%</td>
<td>1.78%-2.56%</td>
</tr>
<tr>
<td>Volatility</td>
<td>51.60%-60.90%</td>
<td>57.20%-60.91%</td>
</tr>
<tr>
<td>Expected dividend yield</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Exercise multiple</td>
<td>2.2-2.8</td>
<td>2.2-2.8</td>
</tr>
<tr>
<td>Expiration Date</td>
<td>March 10, 2025</td>
<td>March 10, 2025</td>
</tr>
<tr>
<td>Forfeiture rate</td>
<td>0%-8%</td>
<td>0%-8%</td>
</tr>
</tbody>
</table>

The expected volatility was estimated based on the historical volatility of comparable peer public companies with a time horizon close to the contract life of the Company’s options. The risk-free interest rate was estimated based on the yield to maturity of U.S. treasury bonds denominated in USD for a term consistent with the expected term of the Company’s options in effect at the option valuation date. The expected exercise multiple was estimated as the average ratio of the stock price to the exercise price of when employees would decide to voluntarily exercise their vested options. Expected dividend yield is zero as the Company has never declared or

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11. SHARE-BASED COMPENSATION (Continued)

paid any cash dividends on its shares, and the Company does not anticipate any dividend payments in the foreseeable future.

The weighted average grant date fair value of the share options for the years ended December 31, 2018 and 2019 were US$12.10 and US$29.02, respectively. The total fair value of options granted to employees as of December 31, 2018 and 2019 amounted to RMB59,090,505 and RMB90,125,656, respectively. Since the exercisability is dependent upon completion of an initial public offering of the Company, no compensation expense relating to the options was recorded for the years ended December 31, 2018 and 2019. The Company will recognize compensation expenses relating to options vested cumulatively upon the completion of an initial public offering of the Company.

12. FAIR VALUE MEASUREMENT

The following tables present the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2018 and 2019:

<table>
<thead>
<tr>
<th>RMB</th>
<th>As of December 31, 2018</th>
<th>Total Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level 1</td>
<td>Level 2</td>
</tr>
<tr>
<td>Investment securities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt securities</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Equity securities with readily determinable fair value</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Convertible debt</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>RMB</th>
<th>As of December 31, 2019</th>
<th>Total Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level 1</td>
<td>Level 2</td>
</tr>
<tr>
<td>Investment securities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt securities</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Equity securities with readily determinable fair value</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>
12. FAIR VALUE MEASUREMENT (Continued)

The tables below reflect the reconciliation from the opening balances to the closing balances for recurring fair value measurements categorized as Level 3 of the fair value hierarchy for the years ended December 31, 2018 and 2019:

<table>
<thead>
<tr>
<th>For the Year Ended December 31, 2018</th>
<th>January 1, 2018</th>
<th>Purchase</th>
<th>Included in Other Comprehensive Loss</th>
<th>Foreign Currency Translation Adjustment</th>
<th>December 31, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gain or Losses</td>
<td>RMB</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Investment securities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt securities</td>
<td>19,751,605</td>
<td></td>
<td>1,693,634</td>
<td>113,918</td>
<td>21,559,157</td>
</tr>
<tr>
<td>Equity securities with readily determinable fair value</td>
<td>835,895</td>
<td>(490,661)</td>
<td></td>
<td>(16,492)</td>
<td>328,742</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Convertible debt</td>
<td>(17,863,647)</td>
<td></td>
<td>(3,553,249)</td>
<td>(1,033,323)</td>
<td>(22,450,219)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>For the Year Ended December 31, 2019</th>
<th>January 1, 2019</th>
<th>Included in Other Comprehensive Loss</th>
<th>Foreign Currency Translation Adjustment</th>
<th>Extinguishment</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gain or Losses</td>
<td>RMB</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Investment securities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt securities</td>
<td>21,559,157</td>
<td>1,591,098</td>
<td>373,491</td>
<td></td>
<td>23,523,746</td>
</tr>
<tr>
<td>Equity securities with readily determinable fair value</td>
<td>328,742</td>
<td>(274,829)</td>
<td></td>
<td></td>
<td>55,302</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>23,579,048</td>
</tr>
<tr>
<td><strong>Liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Convertible debt</td>
<td>(22,450,219)</td>
<td>(8,749,608)</td>
<td>(633,141)</td>
<td></td>
<td>31,832,968</td>
</tr>
</tbody>
</table>

For debt securities, equity securities with readily determinable fair value and convertible debt that do not have a quoted market rate, the Company measured their fair value based on the market approach or income approach when no recent transactions are available. The market approach takes into consideration a number of factors including market multiple and discount rates from traded companies in the industry and requires the Company to make certain assumptions and estimates regarding industry factors. Specifically, some of the significant unobservable inputs included the investee’s historical earning on sale, discount of lack of marketability, investee’s time to initial public offering as well as related volatility. The income approach takes into consideration a number of factors including management projection of discounted future cash flow of the investee as well as an appropriate discount rate. The Company has classified those as level 3 measurement. The assumptions are inherently uncertain and subjective. Changes in any unobservable inputs may have a significant impact on the fair values.

F-36
13. INCOME TAX

a) Income tax

Cayman Islands

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gain. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

Hong Kong S.A.R.

Under the current Hong Kong S.A.R. Inland Revenue Ordinance, the Company’s Hong Kong S.A.R. subsidiary is subject to Hong Kong S.A.R. profits tax at the rate of 16.5% on its taxable income generated from the operations in Hong Kong S.A.R.. Payments of dividends by the Hong Kong S.A.R. subsidiary to the Company is not subject to withholding tax in Hong Kong S.A.R.. A two-tiered profits tax rates regime was introduced in 2018 where the first HK$2 million of assessable profits earned by a company will be taxed at half of the current tax rate (8.25%) whilst the remaining profits will continue to be taxed at 16.5%. There is an anti-fragmentation measure where each group will have to nominate only one company in the group to benefit from the progressive rates.

PRC

The Group’s PRC subsidiary, VIE and VIE’s subsidiaries are subject to the PRC Corporate Income Tax Law (“CIT Law”) at the statutory income tax rate of 25%, unless otherwise specified. According to the CIT Law, entities that qualify as “high-and-new technology enterprises” (“HNTE”) are entitled to a preferential income tax rate of 15%.

In 2017, BlueCity Information Technology received the approval from the tax authority that it qualified as an HNTE. The certificate entitled BlueCity Information Technology to the preferential income tax rate of 15% effective retroactively from January 1, 2017 to December 31, 2019.

The components of loss before income taxes are as follows:

<table>
<thead>
<tr>
<th></th>
<th>For the Years Ended December 31</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2019</td>
<td></td>
</tr>
<tr>
<td>PRC, excluding Hong Kong S.A.R.</td>
<td>108,078,831</td>
<td>13,363,885</td>
<td></td>
</tr>
<tr>
<td>Hong Kong S.A.R.</td>
<td>32,293,002</td>
<td>36,302,843</td>
<td></td>
</tr>
<tr>
<td>Cayman</td>
<td>4,043,086</td>
<td>646,803</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>145,279</td>
<td>1,685,423</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>144,560,198</strong></td>
<td><strong>51,998,954</strong></td>
<td></td>
</tr>
</tbody>
</table>

The Group’s income tax expense recognized in the consolidated statements of comprehensive loss consists of the following:

<table>
<thead>
<tr>
<th></th>
<th>For the Years Ended December 31</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2019</td>
<td></td>
</tr>
<tr>
<td>Current income tax expense-PRC, excluding Hong Kong S.A.R.</td>
<td>—</td>
<td>112,473</td>
<td></td>
</tr>
<tr>
<td>Current income tax expense-Hong Kong S.A.R</td>
<td>—</td>
<td>818,081</td>
<td></td>
</tr>
<tr>
<td><strong>Current income tax expense-total</strong></td>
<td><strong>—</strong></td>
<td><strong>930,554</strong></td>
<td></td>
</tr>
<tr>
<td>Deferred income tax expense</td>
<td>—</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td><strong>Income tax expense</strong></td>
<td><strong>—</strong></td>
<td><strong>930,554</strong></td>
<td></td>
</tr>
</tbody>
</table>
13. INCOME TAX (Continued)

Reconciliation of the differences between PRC statutory income tax rate and the Group’s effective income tax rate for the years ended December 31, 2018 and 2019 are as follows:

<table>
<thead>
<tr>
<th>For the Years Ended December 31,</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RMB</td>
<td>RMB</td>
</tr>
<tr>
<td><strong>PRC Statutory income tax rate</strong></td>
<td>(25.0)%</td>
<td>(25.0)%</td>
</tr>
<tr>
<td>Increase/(decrease) in effective income tax rate resulting from:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax rate differential for non-PRC entities</td>
<td>2.8%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Preferential tax rate</td>
<td>4.7%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Research and development expenses additional deduction</td>
<td>(4.0)%</td>
<td>(15.5)%</td>
</tr>
<tr>
<td>Non-deductible share-based compensation expenses</td>
<td>8.7%</td>
<td>—</td>
</tr>
<tr>
<td>Other non-deductible expenses</td>
<td>1.3%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Change in valuation allowance</td>
<td>11.5%</td>
<td>29.2%</td>
</tr>
<tr>
<td><strong>Effective income tax rate</strong></td>
<td>—</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

b)  Deferred income tax assets

<table>
<thead>
<tr>
<th>As of December 31,</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RMB</td>
<td>RMB</td>
</tr>
<tr>
<td>Net operating loss carry forwards</td>
<td>42,201,148</td>
<td>57,190,726</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>464,366</td>
<td>—</td>
</tr>
<tr>
<td>Donation</td>
<td>200,000</td>
<td>307,587</td>
</tr>
<tr>
<td>Deductible advertising expenses</td>
<td>45,445</td>
<td>462,196</td>
</tr>
<tr>
<td><strong>Total deferred tax assets</strong></td>
<td>42,910,959</td>
<td>57,960,509</td>
</tr>
<tr>
<td>Less: Valuation allowance</td>
<td>(42,910,959)</td>
<td>(57,960,509)</td>
</tr>
<tr>
<td><strong>Deferred income tax assets, net</strong></td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

As of December 31, 2019, the Group had net operating loss carry forwards of RMB224,280,597 primarily attributable to the PRC subsidiaries, consolidated VIE and VIE’s subsidiaries. The losses carried forward by the PRC companies will expire during the period from year 2020 to year 2024.

A valuation allowance is provided against deferred income tax assets when the Group determines that it is more likely than not that the deferred income tax assets will not be utilized in the foreseeable future. The Group has incurred accumulated net operating losses for income tax purposes since its inception. The Group believes that it is more likely than not that these accumulated net operating losses and other deferred tax assets will not be utilized in the foreseeable future. Accordingly, the Group has provided full valuation allowance for the deferred income tax assets as of December 31, 2018 and 2019.
13. INCOME TAX (Continued)

Changes in valuation allowance are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at the beginning of the year</strong></td>
<td>25,587,080</td>
<td>42,910,959</td>
</tr>
<tr>
<td><strong>Additions of valuation allowance</strong></td>
<td>17,323,879</td>
<td>15,049,550</td>
</tr>
<tr>
<td><strong>Balance at the end of the year</strong></td>
<td><strong>42,910,959</strong></td>
<td><strong>57,960,509</strong></td>
</tr>
</tbody>
</table>

According to the PRC Tax Administration and Collection Law, the statute of limitation is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitation is extended to five years under special circumstances where the underpayment of taxes is more than RMB100,000. In the case of transfer pricing issues, the statute of limitation is 10 years. There is no statute of limitation in the case of tax evasion. The income tax returns of the Company’s PRC subsidiary, consolidated VIE and VIE’s subsidiaries for the years from 2015 to 2019 are open to examination by the PRC tax authorities. The Hong Kong tax authorities have up to six years to conduct examinations of the Company’s tax filings. Accordingly, the Hong Kong subsidiaries’ tax years 2014 through 2019 remain open to examination by the Hong Kong tax authorities.

14. NET LOSS PER SHARE

The following table sets forth the basic and diluted net loss per share computation and provides a reconciliation of the numerator and denominator for the years presented:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Numerator:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td>(144,560,198)</td>
<td>(52,929,508)</td>
</tr>
<tr>
<td>Deemed dividend to Series D Redeemable Convertible Preferred Shareholders</td>
<td>(1,535,112)</td>
<td>—</td>
</tr>
<tr>
<td>Accretion and modification of redeemable convertible preferred shares</td>
<td>(236,614,898)</td>
<td>(631,005,563)</td>
</tr>
<tr>
<td><strong>Numerator for basic and diluted net loss per share calculation</strong></td>
<td>(382,710,208)</td>
<td>(683,935,071)</td>
</tr>
<tr>
<td><strong>Denominator:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weighted average number of ordinary shares</td>
<td>5,614,840</td>
<td>5,614,840</td>
</tr>
<tr>
<td><strong>Denominator for basic and diluted net loss per share calculation</strong></td>
<td>5,614,840</td>
<td>5,614,840</td>
</tr>
<tr>
<td><strong>Net loss per ordinary share</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>—Basic and diluted</td>
<td>(68.16)</td>
<td>(121.81)</td>
</tr>
</tbody>
</table>

The potentially dilutive securities that have not been included in the calculation of diluted net loss per share as their inclusion would be anti-dilutive are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock options</td>
<td>984,121</td>
<td>1,084,545</td>
</tr>
<tr>
<td>Preferred shares</td>
<td>9,560,830</td>
<td>9,560,830</td>
</tr>
<tr>
<td>Convertible debt</td>
<td>116,640</td>
<td>—</td>
</tr>
</tbody>
</table>

F-39
15. RELATED PARTY TRANSACTIONS

On April 12, 2018, the Board of Directors of the Company approved to repurchase 288,240 unvested share options from BlueCity Media Limited, which is controlled by Mr. Baoli Ma, founder, Director and Chief Executive Officer of the Company, with consideration of US$8 million. US$7 million was paid in the year of 2018, and the remaining US$1 million (equivalent to RMB6,898,800) was paid in the year of 2019.

During the year ended December 31, 2019, the Group provided interest free loans in the amount of RMB8.0 million to Mr. Baoli Ma. All the loans were repaid by Mr. Baoli Ma during the year ended December 31, 2019.

16. REVENUE INFORMATION

Revenues consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>For the Years Ended December 31</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2019</td>
</tr>
<tr>
<td>Live streaming</td>
<td>457,778,031</td>
<td>671,410,681</td>
</tr>
<tr>
<td>Advertising</td>
<td>32,919,778</td>
<td>35,383,571</td>
</tr>
<tr>
<td>Membership</td>
<td>4,716,854</td>
<td>36,738,369</td>
</tr>
<tr>
<td>Others</td>
<td>5,877,149</td>
<td>15,355,285</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td><strong>501,291,812</strong></td>
<td><strong>758,887,906</strong></td>
</tr>
</tbody>
</table>

The following summarizes the Company’s revenues by geographic areas (based on the locations of customers):

<table>
<thead>
<tr>
<th></th>
<th>For the Years Ended December 31</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2019</td>
</tr>
<tr>
<td>PRC, excluding Hong Kong S.A.R.</td>
<td>484,160,833</td>
<td>708,671,224</td>
</tr>
<tr>
<td>Others</td>
<td>17,130,979</td>
<td>50,216,682</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td><strong>501,291,812</strong></td>
<td><strong>758,887,906</strong></td>
</tr>
</tbody>
</table>

17. COMMITMENTS AND CONTINGENCIES

The Group leases its offices under non-cancelable operating lease agreements. Rental expenses were RMB6,205,072 and RMB8,127,122 for the years ended December 31, 2018 and 2019, respectively.

As of December 31, 2019, future minimum lease commitments under office non-cancelable operating lease agreements, were as follows:

<table>
<thead>
<tr>
<th>Year ending December 31,</th>
<th>Offices RMB</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>7,634,065</td>
</tr>
<tr>
<td>2021</td>
<td>4,275,036</td>
</tr>
<tr>
<td>2022</td>
<td>482,794</td>
</tr>
</tbody>
</table>

Except for those disclosed above, the Group did not have any significant capital or other commitments, long-term obligations, or guarantees as of December 31, 2019.
18. SUBSEQUENT EVENT

A novel strain of coronavirus, later named COVID-19, was reported in December 2019 and broke out in January, 2020 in China. The outbreak led to travel restrictions and various other types of interruptions to the Group’s employees and suppliers. In addition, the outbreak had adverse impacts on the activity levels of the users, as they are discouraged from engaging in offline social networking activities initiated through the Group’s social networking platform. Certain types of livestreaming content, such as those involving group gatherings and outdoor activities, had also become impracticable as a result of the outbreak. The related financial impact cannot be reasonably estimated at this time but is expected to adversely affected for the full fiscal year of 2020, especially its first two quarters.

19. UNAUDITED PRO FORMA FINANCIAL INFORMATION

Each of the Company’s Series A, Series A-1, Series B, Series C, Series C-1 and Series D Preferred Shares shall automatically be converted into one ordinary share immediately upon the closing of a Qualified IPO. In addition, the share-based compensation expenses relating to the vested share options can only be recognized upon the closing of the Qualified IPO, which is a condition for the exercisability of vested share options. The pro forma balance sheet as of December 31, 2019 presents the financial position of the Company as if the closing of the Qualified IPO occurred on December 31, 2019.

On a pro forma basis, the carrying values of Series A, Series A-1, Series B, Series C, Series C-1 and Series D Preferred Shares, in the amount of RMB29,751,569, RMB17,959,327, RMB483,612,008, RMB327,278,389, RMB258,898,069 and RMB612,978,394, respectively, are included in shareholders’ equity under ordinary shares and additional paid-in capital; the share-based compensation expenses recognized relating to share options vested upon the completion of the Qualified IPO, in the amount of RMB57,335,125 is recorded as an addition to both additional paid-in capital and accumulated deficit.

On a pro forma basis, the conversion of such preferred shares and the recognition of share-based compensation expenses will not result in a material reduction of earnings per share for the year ended December 31, 2019 because such effect would be anti-dilutive.

20. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

The following condensed parent company financial information of BlueCity Holdings Limited has been prepared using the same accounting policies as set out in the accompanying consolidated financial statements. As of December 31, 2019, there were no material contingencies, significant provisions of long term obligations, mandatory dividend or redemption requirements of redeemable stocks or guarantees of BlueCity Holdings Limited, except for those which have been separately disclosed in the consolidated financial statements.
20. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)

(a) Condensed Balance Sheets

<table>
<thead>
<tr>
<th></th>
<th>As of December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018 RMB</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>251,805</td>
</tr>
<tr>
<td>Prepayments and other current assets</td>
<td>70,773</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>322,578</strong></td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
</tr>
<tr>
<td>Investment in subsidiaries and consolidated VIE and VIE’s subsidiaries</td>
<td>418,869,694</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td><strong>418,869,694</strong></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>419,192,272</strong></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Amount due to a related party</td>
<td>6,863,200</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>6,863,200</strong></td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Convertible debt</td>
<td>22,450,219</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td><strong>22,450,219</strong></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>29,313,419</strong></td>
</tr>
<tr>
<td><strong>Mezzanine Equity</strong></td>
<td></td>
</tr>
<tr>
<td>Series A Convertible Preferred Shares</td>
<td>29,751,569</td>
</tr>
<tr>
<td>Series A-1 Redeemable Convertible Preferred Shares</td>
<td>16,359,651</td>
</tr>
<tr>
<td>Series B Redeemable Convertible Preferred Shares</td>
<td>239,225,246</td>
</tr>
<tr>
<td>Series C Redeemable Convertible Preferred Shares</td>
<td>178,003,498</td>
</tr>
<tr>
<td>Series C-1 Redeemable Convertible Preferred Shares</td>
<td>150,811,043</td>
</tr>
<tr>
<td>Series D Redeemable Convertible Preferred Shares</td>
<td>460,765,137</td>
</tr>
<tr>
<td><strong>Total mezzanine equity</strong></td>
<td><strong>1,074,916,144</strong></td>
</tr>
<tr>
<td><strong>Shareholders’ deficit:</strong></td>
<td></td>
</tr>
<tr>
<td>Ordinary Shares</td>
<td>3,446</td>
</tr>
<tr>
<td>Accumulated other comprehensive loss</td>
<td>(22,574,272)</td>
</tr>
<tr>
<td>Accumulated deficit</td>
<td>(662,466,465)</td>
</tr>
<tr>
<td><strong>Total shareholders’ deficit</strong></td>
<td><strong>(685,037,291)</strong></td>
</tr>
<tr>
<td><strong>Total liabilities, mezzanine equity and shareholders’ deficit</strong></td>
<td><strong>419,192,272</strong></td>
</tr>
</tbody>
</table>
## 20. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)

### (b) Condensed Statements of Results of Operations

<table>
<thead>
<tr>
<th></th>
<th>For the Years Ended December 31</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2019</td>
<td></td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>(261,927)</td>
<td>(883,243)</td>
<td></td>
</tr>
<tr>
<td><strong>Change in fair value of a convertible debt</strong></td>
<td>(3,553,249)</td>
<td>(8,749,608)</td>
<td></td>
</tr>
<tr>
<td><strong>Gain on extinguishment of a convertible debt</strong></td>
<td>—</td>
<td>8,986,048</td>
<td></td>
</tr>
<tr>
<td><strong>Share of losses from subsidiaries, VIE and VIE’s subsidiaries</strong></td>
<td>(140,745,022)</td>
<td>(52,282,705)</td>
<td></td>
</tr>
<tr>
<td><strong>Loss before income tax</strong></td>
<td>(144,560,198)</td>
<td>(52,929,508)</td>
<td></td>
</tr>
<tr>
<td><strong>Income tax expense</strong></td>
<td>—</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td><strong>Net loss</strong></td>
<td>(144,560,198)</td>
<td>(52,929,508)</td>
<td></td>
</tr>
</tbody>
</table>

### (c) Condensed Statements of Cash Flows

|                                | For the Years Ended December 31 |       |       |
|                                | 2018                             | 2019  |       |
| **Net cash used in operating activities** | (261,927)                        | (702,200) |       |
| **Net cash (used in)/provided by investing activities** | (240,685,100)                    | 2,015,462 |       |
| **Net cash provided by/(used in) financing activities** | 166,251,377                      | (920,710) |       |
| **Effect of foreign currency exchange rate changes on cash** | 2,572,689                        | 76,203 |       |
| **Net (decrease)/increase in cash** | (72,122,961)                     | 468,755 |       |
| **Cash at the beginning of the year** | 72,374,766                       | 251,805 |       |
| **Cash at the end of the year** | 251,805                          | 720,560 |       |
BLUECITY
ITEM 6. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime.

[The post-offering amended and restated memorandum and articles of association that we expect to adopt and to become effective immediately prior to the completion of this offering provide that we shall indemnify our directors and officers (each an indemnified person) against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained by such indemnified person, other than by reason of such person's own dishonesty, willful default or fraud, in or about the conduct of our company's business or affairs (including as a result of any mistake of judgment) or in the execution or discharge of his duties, powers, authorities or discretions, including without prejudice to the generality of the foregoing, any costs, expenses, losses or liabilities incurred by such indemnified person in defending (whether successfully or otherwise) any civil proceedings concerning our company or its affairs in any court whether in the Cayman Islands or elsewhere.]

Pursuant to the indemnification agreements the form of which is filed as Exhibit [10.2] to this registration statement, we agree to indemnify our directors and executive officers against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being such a director or officer.

The underwriting agreement, the form of which will be filed as Exhibit 1.1 to this registration statement, will also provide for indemnification by the underwriters of us and our officers and directors for certain liabilities, including liabilities arising under the Securities Act, but only to the extent that such liabilities are caused by information relating to the underwriters furnished to us in writing expressly for use in this registration statement and certain other disclosure documents.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, we have been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.
ITEM 7.  RECENT SALES OF UNREGISTERED SECURITIES.

During the past three years, we have issued the following securities. We believe that each of the following issuances was exempt from registration under the Securities Act pursuant to Section 4(2) of the Securities Act regarding transactions not involving a public offering or in reliance on Regulation S under the Securities Act regarding sales by an issuer in offshore transactions. No underwriters were involved in these issuances of securities.

<table>
<thead>
<tr>
<th>Securities/Purchaser</th>
<th>Date of Sale or Issuance</th>
<th>Number of Securities</th>
<th>Consideration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary shares</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BlueCity Media Limited</td>
<td>July 3, 2017</td>
<td>7,004</td>
<td>US$180,144.49</td>
</tr>
<tr>
<td></td>
<td>November 2, 2017</td>
<td>19,440</td>
<td>US$500,000.00</td>
</tr>
<tr>
<td>Series A preferred shares</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FH Priolo Limited</td>
<td>April 12, 2018</td>
<td>180,150</td>
<td>US$5,000,000.00</td>
</tr>
<tr>
<td>FH Saltator Limited</td>
<td>April 12, 2018</td>
<td>108,090</td>
<td>US$3,000,000.00</td>
</tr>
<tr>
<td>Series D preferred shares</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primevera Inc.</td>
<td>July 3, 2017</td>
<td>360,300</td>
<td>US$9,999,982.00</td>
</tr>
<tr>
<td>Rainbow Rain Limited</td>
<td>November 2, 2017</td>
<td>540,451</td>
<td>US$15,000,001.00</td>
</tr>
<tr>
<td></td>
<td>January 26, 2018</td>
<td>540,450</td>
<td>US$14,999,999.00</td>
</tr>
<tr>
<td>Formosa Opportunity Limited for and on behalf of UG</td>
<td>November 10, 2017</td>
<td>180,150</td>
<td>US$4,999,991.00</td>
</tr>
<tr>
<td>Formosa Patriot Fund</td>
<td>April 12, 2018</td>
<td>180,150</td>
<td>US$4,999,991.00</td>
</tr>
<tr>
<td>Aviator D, L.P.</td>
<td>September 26, 2018</td>
<td>216,180</td>
<td>US$6,000,000.00</td>
</tr>
<tr>
<td></td>
<td>November 1, 2018</td>
<td>126,105</td>
<td>US$3,500,000.00</td>
</tr>
<tr>
<td>Options</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certain directors, officers, employees</td>
<td>February 2017 to June 2019</td>
<td>Outstanding options to purchase 1,043,253 ordinary shares</td>
<td>Past and future service provided by these individuals to us</td>
</tr>
</tbody>
</table>

ITEM 8.  EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits

See Exhibit Index beginning on page II-[4] of this registration statement.

The agreements included as exhibits to this registration statement contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties were made solely for the benefit of the other parties to the applicable agreement and (i) were not intended to be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate; (ii) may have been qualified in such agreement by disclosure that was made to the other party in connection with the negotiation of the applicable agreement; (iii) may apply contract standards of “materiality” that are different from “materiality” under the applicable securities laws; and (iv) were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement.

We acknowledge that, notwithstanding the inclusion of the foregoing cautionary statements, we are responsible for considering whether additional specific disclosure of material information regarding material contractual provisions is required to make the statements in this registration statement not misleading.

(b) Financial Statement Schedules

Schedules have been omitted because the information required to be set forth therein is not applicable or is shown in the Consolidated Financial Statements or the Notes thereto.
ITEM 9. UNDERTAKINGS.

The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 6, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
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BlueCity Holdings Limited

Exhibit Index

<table>
<thead>
<tr>
<th>Exhibit Number</th>
<th>Description of Document</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1*</td>
<td>Form of Underwriting Agreement</td>
</tr>
<tr>
<td>3.1†</td>
<td>Sixth Amended and Restated Memorandum and Articles of Association of the Registrant, as currently in effect</td>
</tr>
<tr>
<td>3.2*</td>
<td>Form of Seventh Amended and Restated Memorandum and Articles of Association of the Registrant, effective immediately prior to the closing of this offering</td>
</tr>
<tr>
<td>4.1*</td>
<td>Registrant’s Specimen American Depositary Receipt (included in Exhibit 4.3)</td>
</tr>
<tr>
<td>4.2*</td>
<td>Registrant’s Specimen Certificate for Ordinary Shares</td>
</tr>
<tr>
<td>4.3*</td>
<td>Form of Deposit Agreement, among the Registrant, the depositary and the holders and beneficial owners of American Depositary Shares issued thereunder</td>
</tr>
<tr>
<td>4.4†</td>
<td>Fifth Amended and Restated Shareholders Agreement between the Registrant and other parties thereto dated November 2, 2017</td>
</tr>
<tr>
<td>4.5</td>
<td>Joinder to the Fifth Amended and Restated Shareholders Agreement among the Registrant, FH Priolo Limited and FH Saltator Limited, dated February 8, 2018</td>
</tr>
<tr>
<td>5.1*</td>
<td>Opinion of Conyers Dill &amp; Pearman regarding the validity of the ordinary shares being registered and certain Cayman Islands tax matters</td>
</tr>
<tr>
<td>8.1*</td>
<td>Opinion of Conyers Dill &amp; Pearman regarding certain Cayman Islands tax matters</td>
</tr>
<tr>
<td>8.2*</td>
<td>Opinion of King &amp; Wood Mallesons regarding certain PRC tax matters (included in Exhibit 99.2)</td>
</tr>
<tr>
<td>10.1†</td>
<td>2015 Stock Incentive Plan</td>
</tr>
<tr>
<td>10.2*</td>
<td>Form of Indemnification Agreement between the Registrant and its directors and executive officers</td>
</tr>
<tr>
<td>10.3*</td>
<td>Form of Employment Agreement between the Registrant and its executive officers</td>
</tr>
<tr>
<td>10.4</td>
<td>English Translation of the Powers of Attorney by Mr. Baoli Ma and Mr. Changyou Ma, dated June 26, 2018</td>
</tr>
<tr>
<td>10.5</td>
<td>English Translation of the Equity Interest Pledge Agreement among Mr. Baoli Ma, Mr. Changyou Ma, Beijing BlueCity Information &amp; Technology Co., Ltd. and Beijing BlueCity Culture and Media Co., Ltd., dated June 26, 2018</td>
</tr>
<tr>
<td>10.6</td>
<td>English Translation of the Exclusive Consulting and Services Agreement between Beijing BlueCity Information &amp; Technology Co., Ltd. and Beijing BlueCity Culture and Media Co., Ltd., dated June 26, 2018</td>
</tr>
<tr>
<td>10.7</td>
<td>English Translation of the Exclusive Option Agreement among Beijing BlueCity Information &amp; Technology Co., Ltd., Mr. Baoli Ma, Mr. Changyou Ma and Beijing BlueCity Culture and Media Co., Ltd., dated June 26, 2018</td>
</tr>
<tr>
<td>10.8</td>
<td>English Translation of the Spouse Consent Letter by the spouse of Mr. Changyou Ma, dated June 26, 2018</td>
</tr>
<tr>
<td>21.1*</td>
<td>Principal Subsidiaries of the Registrant</td>
</tr>
</tbody>
</table>
### Table of Contents

<table>
<thead>
<tr>
<th>Exhibit Number</th>
<th>Description of Document</th>
</tr>
</thead>
<tbody>
<tr>
<td>23.1*</td>
<td>Consent of KPMG Huazhen LLP</td>
</tr>
<tr>
<td>23.2*</td>
<td>Consent of Conyers Dill &amp; Pearman (included in Exhibit 5.1)</td>
</tr>
<tr>
<td>23.3*</td>
<td>Consent of King &amp; Wood Mallesons (included in Exhibit 99.2)</td>
</tr>
<tr>
<td>24.1*</td>
<td>Powers of Attorney (included on signature page)</td>
</tr>
<tr>
<td>99.1*</td>
<td>Code of Business Conduct and Ethics of the Registrant</td>
</tr>
<tr>
<td>99.2*</td>
<td>Opinion of King &amp; Wood Mallesons regarding certain PRC law matters</td>
</tr>
<tr>
<td>99.3*</td>
<td>Consent of Frost &amp; Sullivan</td>
</tr>
</tbody>
</table>

* To be filed by amendment.
† Previously filed.
SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-1 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Beijing, China, on            , 2020.

BlueCity Holdings Limited

By:

Name: Baoli Ma
Title: Director and Chief Executive Officer
POWERS OF ATTORNEY

Each person whose signature appears below constitutes and appoints each of Baoli Ma and Zhiyong (Ben) Li as attorneys-in-fact with full power of substitution for him or her in any and all capacities to do any and all acts and all things and to execute any and all instruments which said attorney and agent may deem necessary or desirable to enable the registrant to comply with the Securities Act of 1933, as amended (the “Securities Act”), and any rules, regulations, and requirements of the Securities and Exchange Commission thereunder, in connection with the registration under the Securities Act of ordinary shares of the registrant (the “Shares”), including, without limitation, the power and authority to sign the name of each of the undersigned in the capacities indicated below to the Registration Statement on Form F-1 (the “Registration Statement”) to be filed with the Securities and Exchange Commission with respect to such Shares, to any and all amendments or supplements to such Registration Statement, whether such amendments or supplements are filed before or after the effective date of such Registration Statement, to any related Registration Statement filed pursuant to Rule 462(b) under the Securities Act, and to any and all instruments or documents filed as part of or in connection with such Registration Statement or any and all amendments thereto, whether such amendments are filed before or after the effective date of such Registration Statement; and each of the undersigned hereby ratifies and confirms all that such attorney and agent shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<table>
<thead>
<tr>
<th>Signature</th>
<th>Title</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baoli Ma</td>
<td>Director and Chief Executive Officer</td>
<td>, 2020</td>
</tr>
<tr>
<td></td>
<td>(Principal Executive Officer)</td>
<td></td>
</tr>
<tr>
<td>Zhe Wei</td>
<td>Director</td>
<td>, 2020</td>
</tr>
<tr>
<td>Wei Ying</td>
<td>Director</td>
<td>, 2020</td>
</tr>
<tr>
<td>Zhiyong Li</td>
<td>Chief Financial Officer</td>
<td>, 2020</td>
</tr>
<tr>
<td></td>
<td>(Principal Financial and Accounting Officer)</td>
<td></td>
</tr>
</tbody>
</table>

II-7
SIGNATURE OF AUTHORIZED REPRESENTATIVE IN THE UNITED STATES

Pursuant to the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of BlueCity Holdings Limited has signed this registration statement or amendment thereto in New York on __________, 2020.

Authorized U.S. Representative

By:

Name:
Title:

II-8
BLUECITY HOLDINGS LIMITED

FIFTH AMENDED AND RESTATED SHAREHOLDERS AGREEMENT

THIS FIFTH AMENDED AND RESTATED SHAREHOLDERS AGREEMENT (this “Agreement”) is made and entered into as of November 2, 2017 by and among

(a) BlueCity Holdings Limited, an exempted limited liability company organized under the laws of the Cayman Islands (the “Company”),
(b) BlueCity Holdings Hong Kong Limited, a company organized under the laws of Hong Kong (the “HK Entity”),
(c) Beijing BlueCity Information Technology Co., Ltd. (北京蓝城兄弟信息技术有限公司) (the “PRC Subsidiary”), a wholly foreign-owned enterprise established under the laws of the People’s Republic of China (the “PRC”),
(d) Beijing BlueCity Culture and Media Co., Ltd. (北京蓝城兄弟文化传媒有限公司), a limited liability company established under the laws of the PRC (the “Domestic Enterprise”, collectively with the PRC Subsidiary, the “PRC Companies”),
(e) BlueCity International Ltd., a private limited company organized under the laws of England and Wales (the “UK Company”);
(f) Blue Baby LLC, a limited liability company organized under the laws of California, the United States (the “US Company,” collectively with the PRC Companies, the Company, the HK Entity, the PRC Subsidiary, the UK Company and each subsidiary of any of the foregoing, the “Group Companies”);
(g) Ma Baoli (马保力), a PRC citizen with PRC ID No. [******] (the “Founder”),
(h) Ma Changyou (马长有), a PRC citizen with PRC ID No. [******],
(i) BlueCity Media Limited, a company organized under the laws of the British Virgin Islands (the “Founder Holding Company”),
(j) MADE IN CHINA LTD., a company incorporated under the law of the Cayman Islands,
(k) Crystal Stream Fund, L.P., a limited partnership incorporated in the Cayman Islands,
(l) A-Fund, L.P., a limited partnership incorporated in the Cayman Islands,
(m) Shunwei Ventures III Limited, a company incorporated under the law of the British Virgin Islands.
(n) Ventech China III SICAR, a company incorporated under the law of Luxembourg ("Ventech China");
(o) VenTec PCC Limited (on behalf of Cell 4), a company incorporated under the law of the Guernsey;
(p) Truly Delight Limited, a company organized under the laws of the British Virgin Islands;
(q) Prince Profit International Limited, a company organized under the laws of the British Virgin Islands;
(r) BAI GmbH, a company organized under the laws of Germany;
(s) Arcadia Investment Limited, company organized under the laws of the British Virgin Islands ("VKC");
(t) China Prosperity Capital Alpha Limited, company organized under the laws of SAMOA ("CPC");
(u) Primevera Inc., a company incorporated under the laws of the Cayman Islands ("Primevera");
(v) Rainbow Rain Limited, a business company incorporated under the laws of the British Virgin Islands ("CDH");
w) Formosa Opportunity Limited-UG Formosa Patriot Fund, a company incorporated under the laws of the Cayman Islands ("Formosa").

RECITALS

A. Pursuant to the Series D Preferred Share Purchase Agreement entered into as of September 30, 2017 by and among the Group Companies, the Founder, Ma Changyou (马长有), the Founder Holding Company and CDH (the “Series D Share Purchase Agreement”), CDH agreed to subscribe for and purchase an aggregate of 1,801,501 series D preferred shares of the Company, par value US$0.0001 per share (the “Series D Shares”), subject to the terms of the Series D Share Purchase Agreement.

B. Pursuant to the series D share purchase agreement to be entered into by and among certain Group Companies, the Founder, Ma Changyou (马长有), the Founder Holding Company and Formosa or its affiliate (the “Formosa Series D Share Purchase Agreement”), Formosa intends to subscribe for and purchase an aggregate of 180,150 Series D Shares, subject to the terms of the Formosa Series D Share Purchase Agreement.

D. As of the date of this Agreement, MADE IN CHINA LTD is holding 1,150,862 series A preferred shares of the Company, par value US$0.0001 per share (the “Series A Shares”), Crystal Stream Fund, L.P. and A-Fund, L.P. are collectively holding 1,891,291 series A-1 preferred shares of the Company, par value US$0.0001 per share (the “Series A-1 Shares”), Shunwei Ventures III Limited is holding 1,862,069 series B preferred shares of the Company, par value US$0.0001 per share (the “Series B Shares”), Ventech China, VenTec PCC Limited (on behalf of Cell 4), Truly Delight Limited, Prince Profit International Limited and BAI GmbH are collectively holding 1,246,621 series C preferred shares of the Company, par value US$0.0001 per share (the “Series C Shares”), Arcadia Investment Limited and China Prosperity Capital Alpha Limited are collectively holding 977,961 series C-1 preferred shares of the Company, par value US$0.0001 per share (the “Series C-1 Shares”), 116,640 series C-2 preferred shares of the Company, par value US$0.0001 per share (the “Series C-2 Shares”), together with the Series A Shares, the Series A-1 Shares, the Series B Shares, the Series C-1 Shares and the Series D Shares, the “Preferred Shares”) are reserved for issuance to ShanShuiCongRong Media Investment Co., Ltd (山水从容传媒投资有限公司), and Primevera Inc. is holding 360,300 Series D Shares.

E. The Series D Share Purchase Agreement and the Formosa Series D Share Purchase Agreement provide that the execution and delivery of this Agreement is a condition to the consummation of the transactions contemplated thereby.

F. The parties hereto desire to enter into this Agreement to (i) supersede and replace in its entirety of the Prior Shareholders Agreement and (ii) govern certain shareholder rights and other matters as set forth in this Agreement.

NOW, THEREFORE, in consideration of the foregoing recitals, the mutual promises hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. INFORMATION RIGHTS; BOARD REPRESENTATION.

1.1 Information and Inspection Rights.

(a) Information Rights. The Company covenants and agrees that, commencing on the date of this Agreement, the Company will deliver to each of the Preferred Holders:

(i) audited annual consolidated financial statements, within ninety (90) days after the end of each fiscal year, and audited by one of the Big Four Accounting Firms or any other qualified accounting firm chosen by the Company acceptable to the Preferred Majority (as defined below), and management accounts;

(ii) unaudited quarterly consolidated financial statements and management accounts, within thirty (30) days of the end of each fiscal quarter;

(iii) unaudited monthly consolidated financial statements and management accounts within fifteen (15) days of the end of each month;
(iv) an annual consolidated budget (including without limitation the fix-assets investment amount, operation budget and business strategy) for the next fiscal year, within forty-five (45) days prior to the end of each fiscal year;

(v) copies of any reports filed by the Company with any relevant securities exchange, regulatory authority or governmental agency.

(vi) copies of all documents or other information sent to any shareholder of the Company; and

(vii) the consolidated financial statements shall include all Group Companies and if for any period the Company shall have any other subsidiary or entity directly or indirectly controlled by the Company whose accounts are consolidated with those of the Company, then in respect of such period the financial statements delivered pursuant to the foregoing sections shall be the consolidated and consolidating financial statements of the Company and all such consolidated subsidiaries and entities.

All financial statements to be provided to the Preferred Holders pursuant to this Section 1.1 shall be prepared in conformance with the PRC generally accepted accounting principles, the International Financial Reporting Standards, the United States generally accepted accounting principles or any other accounting principles approved by the Preferred Majority. All management accounts shall include a comparison of financial results with the corresponding annual, quarterly and monthly budgets. The rights to have access to the information set out in Section 1.1 shall be referred hereinafter as the “Information Rights”.

(b) Inspection Rights. The Company further covenants and agrees that each of the Preferred Holders shall have the right to, at its own expenses, inspect facilities, records and books of any Group Company at any time during regular working hours on reasonable prior notice to the Group Companies, and the right to discuss the business, operation and conditions of any Group Company with their respective directors, officers, employees, accountants, legal counsels and investment bankers (the “Inspection Rights”).

(c) Termination of Rights. The Information Rights and the Inspection Rights shall terminate upon consummation of a Qualified IPO (as defined in the Sixth Amended and Restated Memorandum and Articles of Association of the Company, as amended (the “Restated Articles”)).

1.2 Board of Directors.

(a) The Restated Articles shall provide that (i) the Company’s board of directors (the “Board”) shall consist of up to thirteen (13) members, which number of members shall not be changed except pursuant to an amendment to the Restated Articles, and (ii) the quorum for meetings of the Board shall consist of seven (7) members and shall include all Preferred Directors (as defined below).

(b) The holders of a majority of Ordinary Shares then outstanding (the “Ordinary Majority”) shall be entitled to appoint to the Board eight (8) directors (the “Ordinary Directors”). Appointment of any family member of the Founder to be a director of the Company shall be subject to prior written consent of the Preferred Majority. CDH shall be entitled to appoint to the Board one (1) director (the “Series D Director”), VKC shall be entitled to appoint to the Board one (1) director (the “Series C-1 Director”), Ventech China shall be entitled to appoint to the Board one (1) director (the “Series C Director”), the Series B Holder shall be entitled to appoint to the Board one (1) director (the “Series B Director”), the holders of at least a majority of Series A-1 Shares shall be entitled to appoint to the Board one (1) director (the “Series A-1 Director”), together with the Series D Director, the Series C-1 Director, the Series C Director and the Series B Director, the “Preferred Directors”).
(c) The Board shall meet at least once each fiscal quarter, unless otherwise agreed by a vote of a majority of the Board, including the affirmative vote of each of the Preferred Directors. The Company shall reimburse the director(s) designated by the holders of Preferred Shares for all reasonable expenses relating to all Board activities, including, without limitation, expenses or fees incurred in relation to attending the Board meetings or meetings of any committee. The Founder shall initially be the Chief Executive Officer (the “CEO”) of the Company. Without limiting the generality of the foregoing, when the directors designated by the Ordinary Majority are less than eight (8) persons, the Founder shall be entitled to exercise the voting right of the vacant director(s) that should be designated by the Ordinary Majority.

(d) For so long as BAI GmbH holds any Preferred Share then outstanding, BAI GmbH shall have the right to appoint an observer to the Board and each committee thereof to attend board or board committee meetings of the Company or its Affiliates in a non-voting observer capacity. For so long as CPC holds any Preferred Share then outstanding, CPC shall have the right to appoint an observer to the Board and each committee thereof to attend board or board committee meetings of the Company or its Affiliates in a non-voting observer capacity. For so long as ShanShuiCongRong Media Investment Co., Ltd (山 水 从 容 传 媒 投 资 有 限 公 司 ) holds any Preferred Share then outstanding, ShanShuiCongRong Media Investment Co., Ltd (山水从容传媒投资有限公司) shall have the right to appoint an observer to the Board and each committee thereof to attend board or board committee meetings of the Company or its Affiliates in a non-voting observer capacity. For so long as Primevera holds any Preferred Share then outstanding, Primevera shall have the right to appoint an observer to the Board and each committee thereof to attend board or board committee meetings of the Company or its Affiliates in a non-voting observer capacity. The Company shall provide such observers with the copies of all notices and materials at the same time and in the same manner as the same are provided to the Preferred Directors.

### 1.3 Other Group Companies

Upon the request of any Preferred Holder(s) who is entitled to appoint a Preferred Director, the Company and the Founder shall cause the board of directors of each other Group Company to have the same number of directors as the Board, to consist of the same directors as the Board, and to follow the same quorum and meeting requirements applicable to the Board as set forth in Section 1.2.

### 1.4 Director Insurance and Indemnification

After the execution of this Agreement, the Company shall provide customary insurance coverage for members of its Board to the extent available on commercially reasonable terms upon requested by the Preferred Directors. The Restated Articles of the Company shall at all times provide that the Company shall indemnify the members of the Company’s Board to the maximum extent permitted by the law of the jurisdiction in which the Company is organized.
2. REGISTRATION RIGHTS

2.1 The registration rights of the Series D Holders, the Series C-2 Holder, the Series C-1 Holders, the Series C Holders, the Series B Holder and Series A-1 Holders (each term as defined below) with respect to the Company and the rights and obligations of the parties with respect to registration of the Company’s Ordinary Shares are set forth in Exhibit B attached hereto.

2.2 The rights set forth in Exhibit B shall terminate upon the earlier of: (i) the date that is five (5) years following the consummation of the Qualified IPO, and (ii) as to any Holder, when all Registrable Securities held by such Holder (together with any Affiliate of such Holder with whom such Holder must aggregate its sales under Rule 144 promulgated by the SEC under the Securities Act (or comparable law in a jurisdiction other than the United States)) could be sold without restriction under SEC Rule 144(k) within a ninety (90) day period.

3. RIGHT OF PARTICIPATION.

3.1 General. Any holder of Preferred Shares or Ordinary Shares issued or issuable upon conversion of the Preferred Shares (the “Conversion Shares”), and their permitted assignees to whom their rights under this Section 3 have been duly assigned in accordance with Section 3 (such holder and each such assignee hereinafter referred to as a “Participation Rights Holder”) shall have the right of first refusal to purchase such Participation Rights Holder’s Pro Rata Share (as defined below), of all (or any part) of any New Securities (as defined in Section 3.3) that the Company may from time to time issue after the date of this Agreement (the “Right of Participation”).

3.2 Pro Rata Share. A Participation Rights Holder’s “Pro Rata Share” for purposes of the Right of Participation is the ratio of (a) the number of Ordinary Shares (calculated on an as-converted basis) held by such Participation Rights Holder, to (b) the total number of Ordinary Shares (calculated on an as-converted basis) then outstanding held by all Participation Rights Holders immediately prior to the issuance of New Securities (as defined below) giving rise to the Right of Participation.

3.3 New Securities. “New Securities” shall mean any shares of the Company, including but not limited to the Preferred Shares, Ordinary Shares or other voting shares of the Company, whether now authorized or not, and rights, options or warrants to purchase such Preferred Shares, Ordinary Shares and securities of any type whatsoever that are, or may become, convertible or exchangeable into such Preferred Shares, Ordinary Shares or other voting shares, provided, however, that the term “New Securities” shall not include:

(a) any of the Company’s Ordinary Shares for issuance to officers, directors, employees and consultants of the Company pursuant to the Company’s employee share option plan (the “ESOP”) or other similar share incentive plan as approved by the Preferred Majority;

(b) any Ordinary Share issued in connection with any share split, share dividend, reclassification or other similar event in which all Participation Rights Holders are entitled to participate on a pro rata basis;
(c) any securities issued pursuant to the acquisition of another corporation by the Company by merger or by acquisition as approved by the Preferred Majority;

(d) any Conversion Shares; and

(e) any securities issued pursuant to a Qualified IPO.

3.4 Procedures.

(a) First Participation Notice. In the event that the Company proposes to undertake an issuance of New Securities (in a single transaction or a series of related transactions), it shall give to each Participation Rights Holder written notice of its intention to issue New Securities (the "First Participation Notice"), describing the amount and type of New Securities, the price and the general terms upon which the Company proposes to issue such New Securities. Each Participation Rights Holder shall have ten (10) Business Days from the date of receipt of the First Participation Notice to agree in writing to purchase such Participation Rights Holder’s Pro Rata Share of such New Securities for the price and upon the terms and conditions specified in the First Participation Notice by giving written notice to the Company and stating therein the quantity of New Securities to be purchased (not to exceed such Participation Rights Holder’s Pro Rata Share). If any Participation Rights Holder fails to so agree in writing within such ten (10) Business Days’ period, then such Participation Rights Holder shall be deemed to have forfeited the right hereunder to purchase its Pro Rata Share of such New Securities.

(b) Second Participation Notice; Oversubscription. If any Participation Rights Holder fails or declines to exercise its Right of Participation in accordance with subsection (a) above, the Company shall promptly give written notice (the "Second Participation Notice") to other Participation Rights Holders who fully exercised their Right of Participation (the "Right Participants") in accordance with subsection (a) above, such Second Participation Notice shall include all the information required in the First Participation Notice and shall additionally identify the portion of the New Securities which such Participation Rights Holder has failed to purchase. Each Right Participant shall have five (5) Business Days after receipt of the Second Participation Notice (the "Second Participation Period") to notify the Company of its desire to purchase more than its Pro Rata Share of the New Securities, stating the number of the additional New Securities it proposes to buy (the "Additional Number"). Such notice may be made by telephone if confirmed in writing within two (2) Business Days. If, as a result thereof, such oversubscription exceeds the total number of the remaining New Securities available for purchase, each oversubscribing Right Participant will be cut back by the Company with respect to its oversubscription to that number of remaining New Securities equal to the lesser of (x) the Additional Number and (y) the product obtained by multiplying (i) the number of the remaining New Securities available for subscription by (ii) a fraction, the numerator of which is the number of Ordinary Shares (calculated on an as-converted basis) held by such oversubscribing Right Participant and the denominator of which is the total number of Ordinary Shares (calculated on an as-converted basis) held by all the oversubscribing Right Participants. Each Right Participant shall be obligated to buy such number of New Securities as determined by the Company pursuant to this Section 3.4 and the Company shall so notify the Right Participants within fifteen (15) Business Days following the date of the Second Participation Notice.
(c) **Failure to Exercise.** Upon the expiration of the Second Participation Period and to the extent that not all New Securities have been subscribed for by the Participation Rights Holders, or in the event no Participation Rights Holder exercises the Right of Participation within ten (10) Business Days following the issuance of the First Participation Notice, the Company shall have one hundred and twenty (120) days thereafter to sell the New Securities (the portion to which the Right of Participation hereunder were not exercised) described in the First Participation Notice at the same or higher price and upon non-price terms not materially more favorable to the purchasers thereof than specified in the First Participation Notice.

(d) **Termination.** The Right of Participation shall terminate upon the closing of a Qualified IPO.

### 4. TRANSFER RESTRICTIONS.

#### 4.1 Certain Definitions.

For purposes of this Agreement, the following terms shall have the meanings as set forth below:

(a) **“Affiliate”** shall mean, in respect of any person, any individual, partnership, corporation, trust or other entity that directly or indirectly controls, or is controlled by, or is under common control with, such person, where control means the direct or indirect ownership of more than fifty percent (50%) of the outstanding shares or other ownership interests having ordinary voting power to elect directors or the equivalent and, in the case of a Preferred Holder, the term “Affiliate” also includes (v) any shareholder of such Preferred Holder, (w) any of such shareholder’s or such Preferred Holder’s general partners or limited partners, (x) the fund manager managing or advising such shareholder or such Preferred Holder (and general partners, limited partners and officers thereof) and other funds managed or advised by such fund manager, and (y) trusts controlled by or for the benefit of any such person referred to in (v), (w) or (x), and (z) any fund or holding company formed for investment purposes that is promoted, sponsored, managed, advised or serviced by such Preferred Holder.

(b) **“Business Day”** shall mean any day that is not a Saturday, Sunday, legal holiday or other day on which commercial banks are required or authorized by law to be closed in (i) the Cayman Islands, with respect to any action to be undertaken or notice to be given in the Cayman Islands, or (ii) the PRC, Hong Kong, Düsseldorf, Luxembourg, or Guernsey with respect to any action to be undertaken or notice to be given in such jurisdiction.

(c) **“Equity Interest”** shall mean, with respect to any person, any shares, ownership interest, equity interest, partnership interest, membership interest, registered capital, securities, or any options, warrants or other rights convertible into, exercisable or exchange for any of the foregoing.

(d) **“Equity Securities”** means any Equity Interests of the Company, including without limitation the Ordinary Shares and the Preferred Shares.
(e) “Series A Holder” shall mean any holder of the Series A Shares and/or any Conversion Shares and their permitted assignees to whom their rights have been duly assigned in accordance with this Agreement.

(f) “Series ABCD Holders” shall mean the Series D Holders, the Series C-2 Holder, the Series C-1 Holders, the Series C Holders, the Series B Holder and the Series A-1 Holders.

(g) “Series A-1 Holder” shall mean any holder of the Series A-1 Shares and/or any Conversion Shares and their permitted assignees to whom their rights have been duly assigned in accordance with this Agreement.

(h) “Series B Holder” shall mean any holder of the Series B Shares and/or any Conversion Shares and their permitted assignees to whom their rights have been duly assigned in accordance with this Agreement.

(i) “Series C Holder” shall mean any holder of the Series C Shares and/or any Conversion Shares and their permitted assignees to whom their rights have been duly assigned in accordance with this Agreement.

(j) “Series C-1 Holder” shall mean any holder of the Series C-1 Shares and/or any Conversion Shares and their permitted assignees to whom their rights have been duly assigned in accordance with this Agreement.

(k) “Series C-2 Holder” shall mean any holder of the Series C-2 Shares and/or any Conversion Shares and their permitted assignees to whom their rights have been duly assigned in accordance with this Agreement.

(l) “Series D Holder” shall mean any holder of the Series D Shares and/or any Conversion Shares and their permitted assignees to whom their rights have been duly assigned in accordance with this Agreement.

(m) “Series D Majority” means the holders of more than fifty percent (50%) of the Series D Shares.

(n) “Preferred Holders” means the Series A Holder, the Series A-1 Holders, the Series B Holder, the Series C Holders, the Series C-1 Holders, the Series C-2 Holders and the Series D Holders.

(o) “Preferred Majority” means the holders of at least ninety-two percent (92%) of the Preferred Shares (voting together as a single class and calculated on an as-converted basis).
4.2 Sale of Equity Securities; Notice of Sale. Subject to Sections 4.8 and Section 4.9 of this Agreement, if any holder of Ordinary Share of the Company (but in no event shall include any Preferred Holder) (the “Selling Shareholder”) proposes to sell or transfer any Equity Securities, then the Selling Shareholder shall promptly give written notice (the “Transfer Notice”) to each Preferred Holder prior to such sale or transfer. The Transfer Notice shall describe in reasonable detail the proposed sale or transfer including, without limitation, (i) the number of Equity Securities to be sold or transferred (the “Offered Securities”), (ii) the nature of such sale or transfer, (iii) the consideration to be paid and the material terms and conditions upon which the proposed transfer is to be made, and (iv) the name and address of each prospective purchaser or transferee. The Transfer Notice shall certify that such Selling Shareholder has received a firm offer from the prospective transferee(s) and in good faith believes a binding agreement for the transfer is obtainable on the terms set forth in the Transfer Notice. The Transfer Notice shall also include a copy of any written proposal, term sheet or letter of intent or other agreement relating to the proposed transfer. The Transfer Notice shall constitute an irrevocable offer by the Selling Shareholder to sell the Offered Securities to other shareholders of the Company in the following order as set forth in Sections 4.3 to Section 4.4.

4.3 Right of First Refusal of Series ABCD Holders. Each Series ABCD Holder will have the right, exercisable upon written notice (the “Series ABCD First Refusal Notice”) to the Selling Shareholder and the Company within ten (10) Business Days after receipt of the Transfer Notice (the “Series ABCD First Refusal Period”) of its election to exercise its right of first refusal hereunder or to exercise its right of co-sale under Section 4.5. The Series ABCD First Refusal Notice shall set forth the number of Offered Securities that such Series ABCD Holder wishes to purchase, which amount shall not exceed the Series ABCD First Refusal Allotment (as defined below) of such Series ABCD Holder. Such right of first refusal may be exercised as follows:

(a) First Refusal Allotment. Each Series ABCD Holder shall have the right to purchase that number of the Offered Securities (the “Series ABCD First Refusal Allotment”) equivalent to the product obtained by multiplying the aggregate number of the Offered Securities by a fraction, the numerator of which is the number of Ordinary Shares (calculated on an as-converted basis) held by such Series ABCD Holder on the date of the Transfer Notice and the denominator of which is the total number of Ordinary Shares (calculated on an as-converted basis) owned by all Series ABCD Holders on the date of the Transfer Notice. Any Series ABCD Holder shall not have a right to purchase any of the Offered Securities unless it exercises its right of first refusal within the Series ABCD First Refusal Period to purchase up to all of its Series ABCD First Refusal Allotment of the Offered Securities. To the extent that any Series ABCD Holder does not exercise its right of first refusal to the full extent of its Series ABCD First Refusal Allotment, the Selling Shareholder shall deliver a notice to each Series ABCD Holder who has fully exercised its right of first refusal in accordance with this Section 4.3 above (the “Series ABCD Re-allotment Notice”) promptly after the expiration of the Series ABCD First Refusal Period. Such Series ABCD Re-allotment Notice shall include all the information required in the Transfer Notice and shall additionally identify the portion of Offered Securities which the Series ABCD Holders have failed to purchase (the “Series ABCD Re-allocated Securities”). The exercising Series ABCD Holders shall, within five (5) Business Days after receipt of the Series ABCD Re-allotment Notice, exercise an additional right to purchase such Series ABCD Re-allocated Securities by notifying the Selling Shareholder in writing, provided, however, that if the exercising Series ABCD Holders desire to purchase in aggregate more than the number of such Series ABCD Re-allocated Securities, then each exercising Series ABCD Holder will be cut back by the Company with respect to its oversubscriptions to that number of the Series ABCD Re-allocated Securities equal to the lesser of (x) the number of Series ABCD Re-allocated Securities it proposes to purchase in excess of its Series ABCD First Refusal Allotment, and (y) the product obtained by multiplying (i) the number of the Series ABCD Re-allocated Securities available for oversubscription by (ii) a fraction the numerator of which is the number of Ordinary Shares (calculated on an as-converted basis) held by each exercising Series ABCD Holder and the denominator of which is the total number of Ordinary Shares (calculated on an as-converted basis) held by all the exercising Series ABCD Holders.
Expiration Notice. Within ten (10) Business Days after expiration of the Series ABCD First Refusal Period, the Company will give written notice (the "Series ABCD First Refusal Expiration Notice") to the Selling Shareholder, each Series ABCD Holder and the Series A Holder specifying either (i) that all of the Offered Securities were subscribed by the Series ABCD Holders exercising their rights of first refusal or (ii) that the Series ABCD Holders have not subscribed for all of the Offered Securities.

Purchase Price. The purchase price for the Offered Securities to be purchased by the Series ABCD Holders exercising their right of first refusal will be the price set forth in the Transfer Notice, but will be payable as set forth in Section 4.3(d) below. If the purchase price in the Transfer Notice includes consideration other than cash, the cash equivalent value of the non-cash consideration will be as previously determined by the Board in good faith, which determination will be binding upon the Company, the exercising Series ABCD Holders and the Selling Shareholder, absent fraud or error.

Payment. Payment of the purchase price for the Offered Securities purchased by the exercising Series ABCD Holders shall be made within five (5) Business Days following the date of the Series ABCD First Refusal Expiration Notice, and concurrently therewith, the Selling Shareholder shall sell and deliver the Offered Securities thereto and the Company shall cooperate therewith (including by updating the register of members, as applicable). Payment of the purchase price will be made by wire transfer or check as directed by the Selling Shareholder.

Rights of a Selling Shareholder. If any Series ABCD Holder exercises its right of first refusal to purchase the Offered Securities, then, upon the date the notice of such exercise is given by such Series ABCD Holder, the Selling Shareholder will have no further rights as a holder of such Offered Securities except the right to receive payment for such Offered Securities from such Series ABCD Holder in accordance with the terms of this Agreement, and the Selling Shareholder will forthwith cause all certificate(s) evidencing such Offered Securities to be surrendered to the Company for transfer to such Series ABCD Holder.

4.4 Right of First Refusal of Series A Holder. If any Offered Securities proposed in the Transfer Notice to be transferred by a Selling Shareholder are not purchased by the Series ABCD Holders in accordance with Section 4.3 above (the "Remaining Offered Securities"), then the Series A Holder shall have the right, exercisable upon written notice (the "Series A First Refusal Notice") to the Selling Shareholder, the Company and each other Series A Holder within ten (10) Business Days after the Company’s issuance of the Series ABCD First Refusal Expiration Notice (the "Series A First Refusal Period") of its election to exercise its right of first refusal hereunder or to exercise its right of co-sale under Section 4.6. The Series A First Refusal Notice shall set forth the number of the Remaining Offered Securities that the Series A Holder wishes to purchase. Such right of first refusal may be exercised as follows:

(a) Series A First Refusal Allotment. The Series A Holder shall have the right to purchase all or part of the Remaining Offered Securities. The Series A Holder shall not have a right to purchase any of the Remaining Offered Securities unless it exercises its right of first refusal within the Series A First Refusal Period to purchase up to all or part of the Remaining Offered Securities.
(b) **Expiration Notice.** Within ten (10) Business Days after expiration of the Series A First Refusal Period, the Company will give written notice (the "**Series A First Refusal Expiration Notice**") to the Selling Shareholder and the Series A Holder specifying either (i) that all of the Remaining Offered Securities were subscribed by the Series A Holder exercising their rights of first refusal or (ii) that the Series A Holder has not subscribed for all of the Remaining Offered Securities.

(c) **Purchase Price.** The purchase price for the Remaining Offered Securities to be purchased by the Series A Holder exercising its right of first refusal will be the price set forth in the Transfer Notice, but will be payable as set forth in Section 4.4(d) below. If the purchase price in the Transfer Notice includes consideration other than cash, the cash equivalent value of the non-cash consideration will be as previously determined by the Board in good faith, which determination will be binding upon the Company, the Series A Holder and the Selling Shareholder, absent fraud or error.

(d) **Payment.** Payment of the purchase price for the Remaining Offered Securities purchased by the Series A Holder shall be made within five (5) Business Days following the date of the Series A First Refusal Expiration Notice, and concurrently therewith, the Selling Shareholder shall sell and deliver the Remaining Offered Securities thereto and the Company shall cooperate therewith (including by updating the register of members, as applicable). Payment of the purchase price will be made by wire transfer or check as directed by the Selling Shareholder.

(e) **Rights of a Selling Shareholder.** If the Series A Holder exercises its right of first refusal to purchase the Remaining Offered Securities, then, upon the date the notice of such exercise is given by such Series A Holder, the Selling Shareholder will have no further rights as a holder of such Remaining Offered Securities except the right to receive payment for such Remaining Offered Securities from such Series A Holder in accordance with the terms of this Agreement, and the Selling Shareholder will forthwith cause all certificate(s) evidencing such Remaining Offered Securities to be surrendered to the Company for transfer to such Series A Holder.

4.5 **Co-Sale Right of Series ABCD Holder.** Following the expiration of the right of first refusal and purchase rights described in Sections 4.2, 4.3 and 4.4 above, each Series ABCD Holder who previously notified the Selling Shareholder in the Series ABCD First Refusal Notice of such Series ABCD Holder’s desire to exercise its co-sale rights hereunder (such Series ABCD Holder, a "**Series ABCD Co-Sale Participant**") shall have the right, exercisable upon written notice to the Selling Shareholder, the Company and each other Series ABCD Holders (the “**Series ABCD Co-Sale Notice**”) within ten (10) business days after receipt of the Series ABCD First Refusal Expiration Notice (the “**Series ABCD Co-Sale Right Period**”), to participate in such sale of the Offered Securities on the same terms and conditions as set forth in the Transfer Notice. The Series ABCD Co-Sale Notice shall set forth the number of Equity Securities (on both an absolute and as-converted to Ordinary Shares basis) that such Series ABCD Co-Sale Participant wishes to include in such sale or transfer, which amount shall not exceed the Series ABCD Co-Sale Pro Rata Portion (as defined below) of such Series ABCD Co-Sale Participant. To the extent one or more of the Series ABCD Holders exercise such right of participation in accordance with the terms and conditions set forth below, the number of Equity Securities that the Selling Shareholder may sell in the transaction shall be correspondingly reduced. The co-sale right of each Series ABCD Holder shall be subject to the following terms and conditions:
(a) **Series ABCD Co-Sale Pro Rata Portion.** Each Series ABCD Co-Sale Participant may sell all or any part of that number of Ordinary Shares (on an as-converted basis) held by it that is equal to the product obtained by multiplying (x) the aggregate number of the Offered Securities subject to the co-sale right of the Series ABCD Co-Sale Participants hereunder by (y) a fraction, the numerator of which is the number of Ordinary Shares (calculated on an as-converted basis) owned by such Series ABCD Co-Sale Participant on the date of the Transfer Notice and the denominator of which is the total combined number of Ordinary Shares (calculated on an as-converted basis) at the same time owned by all Series ABCD Co-Sale Participants and the Selling Shareholder (the **“Series ABCD Co-Sale Pro Rata Portion”**). To the extent that any Series ABCD Holder does not participate in the sale to the full extent of its Series ABCD Co-Sale Pro Rata Portion, the Selling Shareholder and the Series ABCD Co-Sale Participants shall, within five (5) Business Days after the end of the Series ABCD Co-Sale Right Period, make such adjustments to the Series ABCD Co-Sale Pro Rata Portion of each Series ABCD Co-Sale Participant so that any remaining Offered Securities subject to the co-sale right of the Series ABCD Co-Sale Participants hereunder may be allocated on a pro rata basis to the fully participating Series ABCD Co-Sale Participants, if so requested by the fully participating Series ABCD Co-Sale Participants.

(b) **Transferred Shares.** Each Series ABCD Co-Sale Participant shall effect its participation in the sale by promptly delivering to the Selling Shareholder for transfer to the prospective purchaser one or more certificates, properly endorsed for transfer, which represent:

(i) the number of Ordinary Shares (calculated on an as-converted basis) which such Series ABCD Co-Sale Participant elects to sell;

(ii) that number of Preferred Shares which is at such time convertible into the number of Ordinary Shares that such Series ABCD Co-Sale Participant elects to sell; provided in such case that, if the prospective purchaser objects to the delivery of Preferred Shares in lieu of Ordinary Shares, such Series ABCD Co-Sale Participant shall convert such Preferred Shares into Ordinary Shares and deliver Ordinary Shares as provided in **Subsection 4.5(b)(i)** above. The Company agrees to make any such conversion concurrent with the actual transfer of such shares to the purchaser; or

(iii) a combination of the above.

(c) **Payment to Series ABCD Co-Sale Participants.** The share certificate or certificates that the Series ABCD Co-Sale Participant delivers to the Selling Shareholder pursuant to **Section 4.5(b)** shall be transferred to the prospective purchaser in consummation of the sale of the Equity Securities pursuant to the terms and conditions specified in the Transfer Notice, and the Selling Shareholder shall concurrently therewith remit to such Series ABCD Co-Sale Participant that portion of the sale proceeds to which such Series ABCD Co-Sale Participant is entitled by reason of its participation in such sale. To the extent that any prospective purchaser or purchasers prohibits such assignment or otherwise refuses to purchase any shares or other securities from a Series ABCD Co-Sale Participant, the Selling Shareholder shall not sell to such prospective purchaser or purchasers any Equity Securities unless and until, simultaneously with such sale, the Selling Shareholder shall purchase such shares or other securities from such Series ABCD Co-Sale Participant.
4.6 Co-Sale Right of Series A Holder. Provided that all Series ABCD Co-Sale Participants have first exercised and declined to fully exercise their right of co-sale under Section 4.5 above, the Series A Holder who previously notified the Selling Shareholder in the Series A First Refusal Notice of such Series A Holder’s desire to exercise its co-sale rights hereunder (such Series A Holder, the “Series A Co-Sale Participant”) shall have the right, exercisable upon written notice to the Selling Shareholder and the Company (the “Series A Co-Sale Notice”) within five (5) Business Days after the expiration of the five Business Days’ adjustment period provided under Section 4.5(a) above (the “Series A Co-Sale Right Period”), to participate in such sale of the Offered Securities on the same terms and conditions as set forth in the Transfer Notice. The Series A Co-Sale Notice shall set forth the number of Equity Securities (on both an absolute and as-converted to Ordinary Shares basis) that the Series A Co-Sale Participant wishes to include in such sale or transfer, which amount shall not exceed the Series A Co-Sale Pro Rata Portion (as defined below) of the Series A Co-Sale Participant. To the extent the Series A Holder exercises such right of participation in accordance with the terms and conditions set forth below, the number of Equity Securities that the Selling Shareholder may sell in the transaction shall be correspondingly reduced. The co-sale right of the Series A Holder shall be subject to the following terms and conditions:

(a) Series A Co-Sale Pro Rata Portion. The Series A Co-Sale Participant may sell all or any part of that number of Ordinary Shares (on an as-converted basis) held by it that is equal to the product obtained by multiplying (x) the aggregate number of the Offered Securities subject to the co-sale right of the Series A Co-Sale Participant hereunder by (y) a fraction, the numerator of which is the number of Ordinary Shares (calculated on an as-converted basis) owned by the Series A Co-Sale Participant on the date of the Transfer Notice and the denominator of which is the total combined number of Ordinary Shares (calculated on an as-converted basis) at the same time owned by the Series A Co-Sale Participant and the Selling Shareholder (the “Series A Co-Sale Pro Rata Portion”).

(b) Transferred Shares. The Series A Co-Sale Participant shall effect its participation in the sale by promptly delivering to the Selling Shareholder for transfer to the prospective purchaser one or more certificates, properly endorsed for transfer, which represent:

(i) the number of Ordinary Shares (calculated on an as-converted basis) which the Series A Co-Sale Participant elects to sell;

(ii) that number of Series A Shares which is at such time convertible into the number of Ordinary Shares that the Series A Co-Sale Participant elects to sell; provided in such case that, if the prospective purchaser objects to the delivery of Series A Shares in lieu of Ordinary Shares, the Series A Co-Sale Participant shall convert such Series A Shares into Ordinary Shares and deliver Ordinary Shares as provided in Subsection 4.6(b)(i) above. The Company agrees to make any such conversion concurrent with the actual transfer of such shares to the purchaser; or

(iii) a combination of the above.
Payment to Series A Co-Sale Participants. The share certificate or certificates that the Series A Co-Sale Participant delivers to the Selling Shareholder pursuant to Section 4.6(b) shall be transferred to the prospective purchaser in consummation of the sale of the Equity Securities pursuant to the terms and conditions specified in the Transfer Notice, and the Selling Shareholder shall concurrently therewith remit to such Series A Co-Sale Participant that portion of the sale proceeds to which the Series A Co-Sale Participant is entitled by reason of its participation in such sale. To the extent that any prospective purchaser or purchasers prohibits such assignment or otherwise refuses to purchase any shares or other securities from the Series A Co-Sale Participant, the Selling Shareholder shall not sell to such prospective purchaser or purchasers any Equity Securities unless and until, simultaneously with such sale, the Selling Shareholder shall purchase such shares or other securities from the Series A Co-Sale Participant.

4.7 Right to Transfer. To the extent the Preferred Holders do not elect to purchase, or to participate in the sale of, the Equity Securities subject to the Transfer Notice, the Selling Shareholder may, no later than one hundred and twenty (120) days following delivery to the Company and each of the Preferred Holders of the Transfer Notice, conclude a transfer of the Equity Securities covered by the Transfer Notice and not elected to be purchased by the Preferred Holders, which in each case shall be on substantially the same terms and conditions as those described in the Transfer Notice, subject to the co-sale rights set forth in Section 4.5 and 4.6. Any proposed transfer on terms and conditions which are materially different from those described in the Transfer Notice, as well as any subsequent proposed transfer of any Equity Securities by the Selling Shareholder, shall again be subject to the right of first refusal and the co-sale right of the Preferred Holders and shall require compliance by the Selling Shareholder with the procedures described in Section 4.3 to Section 4.6 of this Agreement.

4.8 Exempt Transfers. Notwithstanding anything to the contrary contained herein, the right of first refusal and co-sale rights of the Preferred Holders in Sections 4.2 through 4.6 shall not apply to (a) any sale or transfer of Ordinary Shares to the Company pursuant to a repurchase right or right of first refusal held by the Company in the event of a termination of employment or consulting relationship; or (b) solely for bona fide estate planning purposes, any transfer of Ordinary Shares to the parents, children or spouse of any holder of Ordinary Shares (each transferee pursuant to the foregoing subsections (a) or (b), a "Permitted Transferee").

4.9 Prohibited Transfers

(a) Regardless of anything else contained in this Agreement, except solely for transfers by the Founder to his Permitted Transferees as provided in Section 4.8 above, prior to the consummation of a Qualified IPO, neither the Founder and the Founder Holding Company nor their Permitted Transferees shall, without the prior written consent of the Preferred Majority, directly or indirectly, transfer any Ordinary Shares now or hereafter held by him or it, provided that subject always to the right of first refusal and co-sale right of the Preferred Holders in Sections 4.2 through 4.6, provided that the Founder or the Founder Holding Company can transfer up to three percent (3%) of the outstanding shares of the Company (calculated on an as-converted and fully-diluted basis) as of the date hereof.

(b) Any attempt by a party to transfer in violation of this Section 4 shall be void and the Company hereby agrees it will not effect such a transfer nor will it treat any alleged transferee as the holder of such shares without the written consent of the Preferred Majority.
(c) Each party hereto agrees that it shall not avoid the transfer restrictions set forth in this Section 4 by selling, transferring or otherwise disposing of its interest in any person(s) through which it directly or indirectly holds interests (excluding transfers to Permitted Transferees).

(d) Notwithstanding any other provision in this Agreement, at any time prior to a Qualified IPO, none of the Preferred Holders shall, without the prior written consent of the Ordinary Majority, transfer any Preferred Shares or Conversion Shares to any third party that is principally engaged in the operation of homosexual social websites and mobile applications (the “Competitor”), and none of the Preferred Holders shall, without the prior written consent of the Ordinary Majority, make investment to any Competitor; provided that, Section 4.2 through 4.6 and Section 4.9(a) shall not apply to any proposed transfer of Preferred Shares and/or Conversion Shares to any person or entity other than a Competitor.

(e) For purposes of clarity, the restrictions on transfer set forth in this Agreement are cumulative with, and in addition to, the restrictions set forth in each other agreement imposing restrictions on transfer by such holders of Equity Securities of the Company, and not in lieu thereof.

4.10 For the purpose of this Section 4, a “transfer” or “Transfer” shall mean any proposed directly or indirect assignment, sale, offer to sell, pledge, mortgage, hypothecation, encumbrance, disposition of or any other like transfer or encumbering, through one or a series of transactions, of any interest in any Equity Securities.

4.11 Term. The provisions under this Section 4 shall terminate upon the closing of the Qualified IPO of the Company.

4.12 Legend

(a) Each certificate representing the Equity Securities shall be endorsed with the following legend:

“THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISTRIBUTION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL IN A FORM SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933.

THE SHARES REPRESENTED BY THIS CERTIFICATE MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF AN AGREEMENT BETWEEN THE COMPANY AND THE STOCKHOLDER (AS AMENDED FROM TIME TO TIME), A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.”
(b) Each party agrees that the Company may instruct its transfer agent to impose transfer restrictions on the shares represented by certificates bearing the legend referred to in Section 4.12(a) above to enforce the provisions of this Agreement and the Company agrees to promptly do so. The legend shall be removed upon termination of the provisions of this Section 4.

(c) Restriction on Indirect Transfers. Notwithstanding anything to the contrary contained herein, without the prior written approval of the Preferred Majority:

(i) None of the Company and the holders of Ordinary Shares shall, nor shall any of them cause or permit any other person to transfer any equity interest held or controlled by the Founder or Ma Changyou (马长有) (as applicable) in the PRC Companies and the Founder Holding Company to any person. Any transfer in violation of this Section 4.12(c)(i) shall be void and each of the PRC Companies and the Founder Holding Company hereby agrees that it will not effect such a transfer nor will it treat any alleged transferee as the holder of such equity interest without the prior written approval of the Preferred Majority.

(ii) None of the PRC Companies and the Founder Holding Company shall, nor shall any holder of Ordinary Shares cause or permit any of the PRC Companies and the Founder Holding Company to issue to any person any equity securities of the PRC Companies and the Founder Holding Company, or any options or warrants for, or any other securities exchangeable for or convertible into, such equity securities of the PRC Companies and the Founder Holding Company.

5. DRAG ALONG.

5.1 Drag-Along Rights. In the event that at any time following the date of this Agreement, the Preferred Majority (collectively, the “Drag-Along Shareholders”) approve a transaction that qualifies as a Liquidation Event (as defined in the Restated Articles) (each such transaction, a “Drag-Along Sale”) and the valuation of the Company immediately prior to the Drag-Along Sale reaches US$2,500,000,000 or more in the contemplated Drag-Along Sale, then, upon written notice from such Drag-Along Shareholders requesting them to do so, each of the other shareholders of the Company (the “Dragged Shareholders”) shall (i) vote, or give its written consent with respect to, all the Equity Securities held by them in favor of such proposed Drag-Along Sale and in opposition of any proposal that could reasonably be expected to delay or impair the consummation of any such proposed Drag-Along Sale; (ii) sell, transfer, and/or exchange, as the case may be, all of its Equity Securities in such Drag-Along Sale to such purchaser (the “Potential Purchaser”) on the same terms and conditions as were agreed by the Drag-Along Shareholders; (iii) refrain from exercising any dissenters’ rights or rights of appraisal under applicable law at any time with respect to or in connection with such proposed Drag-Along Sale; and (iv) take all actions reasonably necessary to consummate the proposed Drag-Along Sale, including without limitation amending the then existing Restated Articles. If any Dragged Shareholder does not elect to vote, or give its written consent with respect to such proposed Drag-Along Sale, such Dragged Shareholder shall be obliged to purchase all the shares held by the Drag-Along Shareholders at the price and terms offered by the Potential Purchaser. In such event, the Dragged Shareholders who do not wish to sell their shares shall make a matching offer to purchase from all other relevant shareholders the shares proposed to be sold by any other such shareholders on no less favorable terms than the bona fide offer made by the Potential Purchaser within thirty (30) Business Days of the issuance of the Drag-Along Notice (as defined below).
5.2 Representation and Undertaking

(a) Any such sale or disposition by the Dragged Shareholders shall be on the terms and conditions as the proposed Drag-Along Sale by the Drag-Along Shareholders. Such Dragged Shareholders shall be required to make customary and usual representations and warranties in connection with the Drag-Along Sale, including, without limitation, as to their ownership and authority to sell, free of all liens, claims and encumbrances of any kind, the shares proposed to be transferred or sold by such persons or entities; and any violation or breach of or default under (with or without the giving of notice or the lapse of time or both) any law or regulation applicable to such Dragged Shareholders or any material contract to which such Dragged Shareholders are a party or by which they are bound and shall, without limitation as to time, indemnify and hold harmless to the full extent permitted by law, the purchasers against all obligations, cost, damages, expenses, losses, judgments, assessments, or other liabilities including, without limitation, any special, indirect, consequential or punitive damages, any court costs, costs of preparation, attorney’s fees or expenses, or any accountant’s or expert witness’ fees arising out of, in connection with or related to any breach or alleged breach of any representation or warranty made by, or agreements, understandings or covenants of such Dragged Shareholders as the case may be, under the terms of the agreements relating to such Drag-Along Sale.

(b) Each of the Dragged Shareholders undertakes to obtain all consents, permits, approvals, orders, authorizations or registrations, qualifications, designations, declarations or filings with any governmental authority or any third party (the "Consents"), which are required to be obtained or made in connection with the Drag-Along Sale.

5.3 Drag-Along Notice. Prior to making any Drag-Along Sale in which the Drag-Along Shareholders wish to exercise their rights under this Section 5, the Drag-Along Shareholders shall provide the Company and the Dragged Shareholders with written notice (the "Drag-Along Notice") not less than thirty (30) days prior to the proposed date of the Drag-Along Sale (the "Drag-Along Sale Date"). The Drag-Along Notice shall set forth: (a) the name and address of the purchaser(s), (b) the proposed amount and form of consideration to be paid, and the terms and conditions of payment offered by each of the purchasers, (c) the Drag-Along Sale Date, (d) the number of shares held of record by the Drag-Along Shareholders on the date of the Drag-Along Notice which form the subject to be transferred, sold or otherwise disposed of by the Drag-Along Shareholders, and (e) the number of shares of the Dragged Shareholders or description of substantially all of the assets of the Company to be included in the Drag-Along Sale.

5.4 Transfer Certificate. On the Drag-Along Sale Date, each of Drag-Along Shareholders and the Dragged Shareholders shall each deliver or cause to be delivered an instrument of transfer and a certificate or certificates evidencing its Equity Securities to be included in the Drag-Along Sale, duly endorsed for transfer with signatures guaranteed, to such Potential Purchaser in the manner and at the address indicated in the Drag-Along Notice.
5.5 Payment. If the consideration offered is payable in securities or property other than cash (or evidence of cash indebtedness), the Board shall in good faith determine the fair market value of any such securities or property in cash, provided that any Preferred Holder shall have the right to challenge any determination by the Board of fair market value made pursuant hereto, in which case the determination of fair market value shall be made by a valuer selected jointly by the Board and the challenging parties. If the Drag-Along Shareholders or the Dragged Shareholders receive the purchase price for their shares or such purchase price is made available to them as part of a Drag-Along Sale and, in either case they fail to deliver certificates evidencing their shares as described in this Section 5, they shall for all purposes be deemed no longer to be a shareholder of the Company (with the record books of the Company updated to reflect such status), shall have no voting rights, shall not be entitled to any dividends or other distributions with respect to any shares held by them, shall have no other rights or privileges as a shareholder of the Company. In addition, the Company shall stop any subsequent transfer of any such shares held by such shareholders.

5.6 Termination. The drag-along rights under this Section 5 shall be terminated upon the consummation of a Qualified IPO.

6. ASSIGNMENT AND AMENDMENT.

6.1 Assignment. Notwithstanding anything herein to the contrary:

(a) Information Rights and Registration Rights. The rights of the Preferred Holders under Section 1.1 are fully assignable in connection with a permitted transfer of shares of the Company by such Preferred Holder; provided, however, that in either case no party may be assigned any of the foregoing rights unless the Company is given written notice by the assigning party stating the name and address of the assignee and identifying the securities of the Company as to which the rights in question are being assigned; and provided, further, that any such assignee shall receive such assigned rights subject to all the terms and conditions of this Agreement, including without limitation the provisions of this Section 6.

(b) Rights of Participation; Right of First Refusal; Co-Sale Rights. The rights of each Preferred Holder or each holder of Preferred Shares under Sections 3 and 4 are fully assignable in connection with a permitted transfer of shares of the Company by such Preferred Holder or such holder of Preferred Shares, as the case may be; provided, however, that no party may be assigned any of the foregoing rights unless the Company is given written notice by such assigning party at the time of such assignment, stating the name and address of the assignee and identifying the securities of the Company as to which the rights in question are being assigned; and provided, further, that any such assignee shall receive such assigned rights subject to all the terms and conditions of this Agreement, including without limitation the provisions of this Section 6.

6.2 Amendment of Rights. Any term of this Agreement may be amended only with the written consent of (i) the Company, (ii) the Ordinary Majority, and (iii) the Preferred Majority, provided, however, that any parties hereto may waive any of its rights hereunder without obtaining the consent of any other party. Any amendment or waiver effected in accordance with this Section 6.2 shall be binding upon the parties hereto and their respective assigns.
7. CONFIDENTIALITY, NON-DISCLOSURE AND NON-COMPETE AND OTHER COVENANTS.

7.1 Disclosure of Terms. The terms and conditions of this Agreement and other Transaction Agreements (as defined in the Series D Share Purchase Agreement), any term sheet or memorandum of understanding entered into pursuant to the transactions contemplated hereby and thereby, all exhibits and schedules attached hereto and thereto, the transactions contemplated hereby and thereby, the documents, materials, and other information obtained by the holders of the Preferred Shares upon exercising the Information Rights and Inspection Rights (collectively, the “Financing Terms”), including their existence, shall be considered confidential information and shall not be disclosed by any party hereto to any third party except in accordance with the provisions set forth below (the “Confidential Information”), provided that such Confidential Information shall not include any information that is in the public domain other than caused by the breach of the confidentiality obligations hereunder.

7.2 Press Releases. Any press release issued by the Company shall not disclose any of the Financing Terms and the final form of such press release shall be approved in advance in writing by the Preferred Majority, which approval shall not be unreasonably withheld. No other announcement regarding any of the Financing Terms in a press release, conference, advertisement, announcement, professional or trade publication, mass marketing materials or otherwise to the general public may be made without the prior written consent of the Preferred Majority.

7.3 Permitted Disclosures. Notwithstanding the foregoing, any party may disclose any of the Confidential Information to its current or bona fide prospective investors, employees, investment bankers, lenders, partners, accountants and attorneys on a need-to-know basis, in each case only where such persons or entities are under appropriate nondisclosure obligations. Without limiting the generality of the foregoing, any Preferred Holder and the Preferred Director shall be entitled to disclose the Confidential Information and other information related to the Company or the PRC Companies for the purposes of fund reporting or inter-fund reporting or to their fund manager, other funds managed by their fund manager and their respective auditors, counsel, directors, officers, employees, shareholders or investors, or as required by law, government authorities, exchanges and/or regulatory bodies, including the SEC (or the equivalent in other jurisdictions).

7.4 Legally Compelled Disclosure. In the event that any party is requested or becomes legally compelled (including without limitation, pursuant to securities laws and regulations) to disclose the Confidential Information, such party (the “Disclosing Party”) shall provide the other parties (the “Non-Disclosing Parties”) with prompt written notice of that fact and use all reasonable efforts to seek (with the cooperation and reasonable efforts of the other parties) a protective order, confidential treatment or other appropriate remedy. In such event, the Disclosing Party shall furnish only that portion of the Confidential Information which is legally required to be disclosed and shall exercise reasonable efforts to keep confidential such Confidential Information to the extent reasonably requested by any Non-Disclosing Party.

7.5 Other Information. The provisions of this Section 7 shall be in addition to, and not in substitution for, the provisions of any separate nondisclosure agreement executed by any of the parties with respect to the transactions contemplated hereby.

7.6 Notices. All notices required under this Section 7 shall be made pursuant to Section 12.1 of this Agreement.
7.7 Use of Investor’s Name or Logo. Without the prior written consent of a Preferred Holder (with respect to clause (iii), it only refers to the Series B Holder), none of the other parties hereto shall use, publish, reproduce, or refer to (i) the name of such Preferred Holder, (ii) the names, photos or pictures, or logos of any partner of such Preferred Holder, (iii) the names, logos, trademarks of Xiaomi Corporation, or (iv) any similar names, trademarks or logos of such Preferred Holder, in any of their marketing, advertising or promotion materials or for any other purposes.

7.8 Corporate Opportunities. It is acknowledged and agreed by the Group Companies (for itself and on behalf of its subsidiaries and Affiliates) that, notwithstanding the appointment of any Preferred Director, subject to Section 4.9(d) and all applicable laws and securities regulations, any Series ABCD Holder and its respective Affiliates (including investment funds, persons or accounts under its management) (the “Connected Persons”) shall forever be entitled to, directly or indirectly:

(a) acquire, dispose of, transfer, enter into any derivative or similar transaction, or otherwise enter into a contract in respect of the shares and other securities of the Group Companies or any other company or person (including, without limitation, shares and other securities of a publicly listed company and/or of a company that competes, directly or indirectly, with the Company);

(b) enter into any agreement, arrangement or understanding with, or otherwise acquire, hold or dispose of shares or securities in, any business which is of the same or similar type to all, or any part of, the business carried on by the Group Companies from time to time; and/or

(c) refer a business or investment or other corporate opportunity of any nature or potential transaction (the “Corporate Opportunity”) to any person or entity whatsoever (whether or not having any affiliation to the Group Companies), including, without limitation, to a Connected Person and/or to participate directly or indirectly in any such Corporate Opportunity, except for a Corporate Opportunity that is expressly directed or offered to such Preferred Director solely in his or her capacity as a director of the Company (the “Company Opportunity”). Provided that a Company Opportunity is referred to the Company on a first refusal basis by such Preferred Director, the Company acknowledges and agrees that such Preferred Director shall have acted in good faith and in a manner such person reasonably believes to be in or not opposed to the best interests of the Company and such Preferred Director shall not be in breach of any fiduciary duty or duty of confidentiality for referring a Company Opportunity to any person (including, without limitation, the relevant Series ABCD Holder or any of its respective Connected Persons). Any Company Opportunity not pursued by the Company may be referred to any other person or entity (including, without limitation, any Series ABCD Holder or any of its Connected Persons) by such Preferred Director and the Company renounces and waives any interest or expectancy in such Company Opportunity.
7.9 Non-Competition. Unless the Preferred Majority otherwise consents in writing, the Founder hereby undertakes to the Preferred Holders that (a) so long as the Founder is an employee, officer or director of a Group Company, the Founder shall devote his full time and attention to the business of the Group Companies and will use his best efforts to develop the business and interests of the Group Companies, and (b) if the Founder is no longer an employee, officer or director of any Group Company, for a period ending of: (x) two (2) years after the date that his employment/service relationship with any Group Company is terminated unilaterally by such Group Company or (y) the effective date of a Qualified IPO if he voluntarily resigns from any Group Company, the Founder shall not, and shall cause his/her Affiliate not to, directly or indirectly, (i) own, manage, engage in, operate, control, work for, consult with, render services for, do business with, maintain any interest in (proprietary, financial or otherwise) or participate in the ownership, management, operation or control of, any business that competes with the Principal Business (as defined in the Series D Share Purchase Agreement), whether in corporate, proprietorship or partnership form or otherwise; provided, however, that the restrictions contained in this clause (i) shall not restrict the acquisition by the Founder, directly or indirectly, of no more than five percent (5%) of the outstanding share capital of any publicly traded company engaged in any business that competes with the Principal Business, (ii) solicit any person who is or has been at any time a customer of any Group Company for the purpose of offering to such customer goods or services similar to or competing with those offered by any Group Company, or canvass or solicit any person who is or has been at any time a supplier or licensor or customer of any Group Company for the purpose of inducing any such person to terminate its business relationship with such Group Company, (iii) solicit or entice away or endeavour to solicit or entice away any director, officer, consultant or employee of any Group Company, (iv) provide consulting service to any business that competes with the Principal Business in any form; or (v) execute any agreement, make any commitment or adopt any arrangement which is likely to restrict or prejudice the interests of any Group Company in its business. The Founder agrees that the limitations set forth in this Section 7.9 are reasonably tailored and reasonably necessary in light of the circumstances. Furthermore, if any provision of this Section 7.9 is more restrictive than permitted by the laws of any jurisdiction in which a Party seeks enforcement thereof, then this Section 7.9 will be enforced to the greatest extent permitted by law. Each of the undertakings contained in this Section 7.9 shall be enforceable by each Group Company and the Preferred Holder separately and independently of the right of the other Group Companies and the other Preferred Holders.

7.10 Compliance with Laws; Registrations.

(a) The Group Companies shall, and the Founder shall cause the Group Companies to, conduct their respective business in compliance in all material respects with all applicable Laws, including but not limited to Laws regarding anti-corruption, foreign investments, corporate registration and filing, import and export, customs administration, foreign exchange, telecommunication and e-commerce, intellectual property rights, labor and social welfare, and taxation, and obtain, make and maintain in effect, all consents and permits from the relevant governmental authority or other person required in respect of the due and proper establishment and operations of each Group Company as now conducted in accordance with applicable laws. Without limiting the generality of the foregoing, none of the Group Companies shall, and the Founder shall cause each Group Company not to, directly or indirectly, (i) offer or give anything of value to any governmental official with the intent of obtaining any improper advantage, affecting or influencing any act or decision of any such person, assisting any Group Company in obtaining or retaining business for, or with, or directing business to, any person, or constituting a bribe, kickback or illegal or improper payment to assist any Group in obtaining or retaining business, (ii) take any other action, in each case, in violation of the Foreign Corrupt Practices Act of the United States of America, as amended (as if it were a US Person), or any other applicable similar anti-corruption, recordkeeping and internal controls laws, or (c) establish or maintain any fund or assets in which any Group Company has proprietary rights that have not been recorded in its books and records of Group Company.
Without limiting the generality of the foregoing, the Founder and each Group Company shall ensure that all filings and registrations with the PRC governmental authorities so required by them shall be duly completed in accordance with the relevant rules and regulations, including without limitation any such filings and registrations with the Ministry of Commerce, the Ministry of Industry and Information Technology, the State Administration of Industry and Commerce, the State Administration for Foreign Exchange, tax bureau, customs authorities, product registration authorities, labor authorities and the local counterpart of each of the aforementioned governmental authorities, in each case, as applicable.

7.11 Option to Purchase the Domestic Enterprise. The Parties hereby acknowledge and agree that, as part of the consideration for the Preferred Holders’ investment in the Company and other valuable consideration, the Company has the option, exercisable by the Company or any then subsidiary thereof at any time (provided that such purchase by the Company or such subsidiary is permitted under the then applicable laws of the PRC), to purchase or transfer to an Affiliate of the Company the entire equity interest of the Domestic Enterprise from the shareholders of Domestic Enterprise at the lowest amount permitted under the laws of the PRC then applicable. The parties further agree to effect such transfer of equity interest in the Domestic Enterprise upon and only upon receipt of the written request of the Preferred Majority and the Ordinary Majority, provided that such transfer shall at the time of such request be permissible under the laws of the PRC then applicable.

7.12 No Avoidance; Voting Trust. The Group Companies will not, by any voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be performed hereunder by the Group Companies, and the Group Companies will at all times in good faith assist and take action as appropriate in the carrying out of all of the provisions of this Agreement. Each shareholder of the Company agrees that it shall not enter into any other agreements or arrangements of any kind with respect to the voting of any Equity Securities or deposit any Equity Securities in a voting trust or other similar arrangement.

7.13 Preferred Investment and Cooperation Right. The Company shall negotiate and communicate in advance with CDH with respect to any merger, acquisition or restructuring plan of the Company, and CDH shall be entitled to participate in the implementation of such plan of merger, acquisition or restructuring. In the event that the Company carries on any new business, CDH shall have the preferred right to invest in such new business, or to cooperate with the Company with respect to such new business. The details of the foregoing shall be further agreed by the relevant parties and duly approved by the Board of the Company.

8. PROTECTIVE PROVISIONS.

8.1 Acts Requiring Approval of Preferred Holders. In addition to such other limitations as may be provided in this Agreement, the Restated Articles or any applicable law, none of the Group Companies shall and the Founder shall cause each Group Company not to, take any of the following acts, either directly or indirectly, or by amendment, waiver, merger or otherwise, without the prior written approval of the Preferred Majority (for the purposes of this Section 8, the term “Company” means the Group Company as the context requires):

(a) any amendment or change of the rights, preferences, privileges or powers of, or the restrictions provided for the benefit of, any Preferred Shares (including change of the definition of Preferred Majority);
(b) any action that, increases, reduces, cancels, authorizes, creates or issues any class or series of the Company securities (or warrants, options or similar rights to acquire such securities) or any other debt or equity securities (or warrants, options or similar rights to acquire such securities) of the Company except for the issuance of any securities that are specifically excluded from the definition of New Securities as defined in Section 3.3 above;

(c) any action that repurchases, redeems or retires any of the Company’s voting securities other than pursuant to the redemption right of the holders of the Preferred Shares as provided herein or in the Restated Articles, or contractual rights to repurchase Ordinary Shares or Preferred Shares by employees, directors or consultants of any Group Company, and issues any shares with such rights of repurchase or redemption, or any other action that has the effect of diluting or reducing the then effective shareholding of the Preferred Holders;

(d) any share split, share consolidation or share dividend and any action that reclassifies or restructures in other methods the capital of the Company;

(e) any alteration or amendment of the Restated Articles or other constitutional documents;

(f) any acquisition, merger, sale, consolidation, joint venture, establishment of any subsidiary, strategic alliance of any Group Company with or into one or more entities or any spin-off, sub-division, or any other transaction of a similar nature or having a similar economic effect as any of the foregoing, or other forms of restructuring of any Group Company;

(g) the initial public offering of any of the shares or other equity or debt securities of any Group Company (or as the case may be, the shares or securities of the relevant entity resulting from any merger, reorganization or other arrangements made by or to the Group Company for the purposes of public offering);

(h) the dissolution, liquidation, restructuring, bankruptcy, or winding up, the initiation of similar proceedings, or application for appointment of a receiver, manager, judicial manager or officer with similar functions;

(i) any action that sells, transfers or disposes of all or a substantial part of the business, assets, intellectual property or goodwill of any Group Company, or purchases all or substantially all of the assets of another entity or acquisition of any entity, or any license of any material technology or intellectual property of any Group Company;

(j) any distribution of profits amongst the shareholders by way of dividend (interim or otherwise), capitalization of reserves or otherwise;

(k) the adoption, amendment or termination of the employee share incentive plan, or any other equity incentive plans for the benefit of any employees, officers, directors, contractors, advisors or consultants of any Group Company, any issuance thereunder and any increase of the total number of equity securities reserved for issuance thereunder;
any transaction between (i) any Group Company and (ii) any Shareholder or the director, officer or employee of any Group Company or their associates and Affiliates, unless such transaction occurs in the ordinary course of business of the Group Company and on normal commercial terms on arm-length basis and has been fully disclosed in writing to the Preferred Holders prior to the entering into of such transaction;

(m) any transaction or matter in which any Group Company will act as guarantor or will be required to pledge its assets or provide collateral;

(n) any change in the number of directors or the structure of the board of any Group Company;

(o) any change, sale, pledge or disposal of the Company’s equity interest or registered capital, or creation of any kind of encumbrance thereon, or any sale, pledge, transfer, disposal or dilution of the Company’s direct or indirect equity interests in any other Group Company, or any approval of transfer of shares or equity interests in any Group Company;

(p) design or approval of any future financing plans of the Company;

(q) any termination, amendment or waiver of the series of the documents through which the PRC Subsidiary acquires control of the Domestic Enterprise;

(r) any other actions that are not in the ordinary course of business.

8.2 Board Consent. Without limitations as may be provided in the Restated Articles, the following acts by the Group Companies shall in each case require the prior written approval of a majority of the Board including the affirmative votes of all Preferred Directors:

(a) the acquisition (by way of purchase or otherwise) by any Group Company of any interest in any real property except a lease of office premises;

(b) the adoption of the annual budget, business plan and the establishment of performance milestones or corporate benchmarks for the Group Companies, and any material deviations therefrom;

(c) the establishment or acquisition of any subsidiary or joint venture with total investment amount in excess of US$1,000,000, or the establishment of any brands for companies other than the Group Companies;

(d) incurrence of indebtedness in excess of US$2,000,000 individually or in excess of US$10,000,000 in the aggregate during any fiscal year out of the budget;

(e) any loans by any Group Company to any director, officer or employee;

(f) the purchase or lease by any Group Company of any motor vehicle valued in excess of US$150,000;

(g) the purchase by any Group Company of any securities of any other company or any otherwise investment in any other company in excess of US$3,000,000 individually or US$10,000,000 in the aggregate in a twelve (12) month period;
(h) any transaction(s) by any Group Company with value in excess of US$3,000,000 individually or US$10,000,000 in the aggregate during any fiscal year, whether as to the incurrence of capital commitment or capital expenditure, or the purchase or acquisition or lease of any assets or real property, or otherwise;

(i) any creation, issuance or incurrence of any indemnity, debenture, security interest, lien, charge or other encumbrance on all or any part of the business, assets or rights of any Group Company;

(j) the appointment and dismissing of CEO, COO and CFO; the increase in compensation of any of the five (5) most highly compensated employees of any Group Company by more than fifteen percent (15%) in a twelve (12) month period; the employees applied to this term will be the same ones who will sign the non-competition agreements before the First Closing (as defined in the Series D Share Purchase Agreement);

(k) the appointment or removal of the auditor(s) of any Group Company and the determination of the fees, remuneration or other compensations of such auditor(s);

(l) amendment of accounting and financial policies or change of the financial year of the Company;

(m) settlement with other parties in regard to any material litigation, arbitration or other claims in which the Company is involved with target amount in excess of US$500,000; and

(n) any termination or suspension of the business of any Group Company or any change in the nature or scope of the business of any Group Company.

9. DIVIDEND PREFERENCE

The parties acknowledge and agree that dividends or distributions to the shareholders of the Company shall be declared, paid and made in accordance with the Restated Articles.

10. LIQUIDATION PREFERENCE

If a Liquidation Event (as defined in the Restated Articles) occurs, the parties acknowledge and agree that distributions to the shareholders of the Company shall be made in accordance with the Restated Articles.

11. REDEMPTION

The parties acknowledge and agree that the redemption of Preferred Shares shall be made in accordance with the Restated Articles.
12. GENERAL PROVISIONS.

12.1 Notices.

(a) Except as may be otherwise provided herein, all notices, requests, waivers and other communications made pursuant to this Agreement shall be in writing and shall be conclusively deemed to have been duly given (i) when hand delivered to the other party, upon delivery; (ii) when sent by facsimile at the number set forth in Exhibit A hereto, upon receipt of confirmation of error-free transmission; (iii) when sent by email set forth in Exhibit A hereto, upon receipt by the email system of recipients; (iv) seven (7) Business Days after deposit in the mail as air mail or certified mail, receipt requested, postage prepaid and addressed to the other party as set forth in Exhibit A; or (v) three (3) Business Days after deposit with an international overnight delivery service, postage prepaid, addressed to the parties as set forth in Exhibit A with next-Business Day delivery guaranteed, provided that the sending party receives a confirmation of delivery from the delivery service provider.

(b) Each person making a communication hereunder by facsimile shall promptly confirm by telephone to the person to whom such communication was addressed each communication made by it by facsimile pursuant hereto but the absence of such confirmation shall not affect the validity of any such communication. A party may change or supplement the addresses given above, or designate additional addresses, for purposes of this Section 12.1 by giving the other party written notice of the new address in the manner set forth above.

12.2 Entire Agreement. This Agreement, the Series D Share Purchase Agreement, the Formosa Series D Share Purchase Agreement, any other Transaction Agreements (as defined respectively in the Series D Share Purchase Agreement and the Formosa Series D Share Purchase Agreement) and the Restated Articles together with all the exhibits hereto and thereto, constitute and contain the entire agreement and understanding of the parties with respect to the subject matter hereof and supersedes any and all prior negotiations, correspondence, agreements (including without limitation the Prior Shareholders Agreement), understandings, duties or obligations between the parties respecting the subject matter hereof. The parties hereto acknowledge and agree that as of the date hereof, the Prior Shareholders Agreement shall be terminated and superseded in its entirety by this Agreement and each party to the Prior Shareholders Agreement hereby waives any and all of its rights under the Prior Shareholders Agreement in exchange for its rights in this Agreement.

12.3 Governing Law. This Agreement shall be governed by and construed exclusively in accordance with the laws of Hong Kong Special Administration Region of the PRC (“Hong Kong”) without giving effect to any choice of law rule that would cause the application of the laws of any jurisdiction other than the laws of Hong Kong to the rights and duties of the parties hereunder.

12.4 Severability. If any provision of this Agreement is found to be invalid or unenforceable, then such provision shall be construed, to the extent feasible, so as to render the provision enforceable and to provide for the consummation of the transactions contemplated hereby on substantially the same terms as originally set forth herein, and if no feasible interpretation would save such provision, it shall be severed from the remainder of this Agreement, which shall remain in full force and effect unless the severed provision is essential to the rights or benefits intended by the parties. In such event, the parties shall use their commercially reasonable efforts to negotiate, in good faith, a substitute, valid and enforceable provision or agreement which most nearly effects the parties’ intent in entering into this Agreement.
12.5 Successors and Assigns. Subject to the provisions of Section 6.1, the provisions of this Agreement shall inure to the benefit of, and shall be binding upon, the successors and permitted assigns of the parties hereto. The rights and obligations of any Preferred Holder hereunder may be assigned and transferred to its Affiliate(s) or to any other person in connection with the transfer of Equity Securities of the Company held by such Preferred Holder (subject always to the transfer restriction to any Competitor pursuant to Section 4.9(d)), without the consent of any other Party by giving a prior notice to the Company. This Agreement and the rights and obligations of each other Party hereunder shall not otherwise be assigned or transferred without the mutual written consent of the other Parties except as expressly provided herein.

12.6 Interpretation; Captions. This Agreement shall be construed according to its fair language. The rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not be employed in interpreting this Agreement. The captions to sections of this Agreement have been inserted for identification and reference purposes only and shall not be used to construe or interpret this Agreement. Unless otherwise expressly provided herein, all references to Sections and Exhibits herein are to Sections and Exhibits of this Agreement.

12.7 Counterparts. This Agreement may be executed and delivered by facsimile or other electronic signature in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Facsimile and e-mailed copies of signatures shall be deemed to be originals for purposes of the effectiveness of this Agreement.

12.8 Adjustments for Share Splits, Etc. Wherever in this Agreement there is a reference to a specific number of shares of Preferred Shares or Ordinary Shares of the Company, then, upon the occurrence of any subdivision, combination or share dividend of the Preferred Shares or Ordinary Shares, the specific number of shares so referenced in this Agreement shall automatically be proportionally adjusted to reflect the effect on the outstanding shares of such class or series of shares by such subdivision, combination or share dividend.

12.9 Shareholders Agreement to Control. If and to the extent that there are inconsistencies between the provisions of this Agreement and those of the Restated Articles, the terms of this Agreement shall control with respect to each of the shareholders of the Company only. If appropriate, the parties hereto agree to take all actions necessary or advisable, as promptly as practicable after the discovery of such inconsistency, to amend the Restated Articles so as to eliminate such inconsistency to the fullest extent permissible by law.

12.10 Aggregation of Shares. All Preferred Shares or Ordinary Shares held or acquired by affiliated entities or persons (as defined in Rule 405 under the Securities Act) shall be aggregated together for the purpose of determining the availability of any rights under this Agreement.

12.11 Dispute Resolution.

(a) Negotiation Between Parties; Mediations. The parties agree to negotiate in good faith to resolve any dispute between them regarding this Agreement. If the negotiations do not resolve the dispute to the reasonable satisfaction of the parties to such dispute within thirty (30) days following the commencement of such negotiation, Section 12.11(b) shall apply.
(b) Arbitration.

(i) In the event the parties are unable to settle a dispute between them regarding this Agreement in accordance with subsection (a) above, such dispute shall be referred to and finally settled by arbitration administered by the Hong Kong International Arbitration Centre in accordance with the UNCITRAL Arbitration Rules (the "UNCITRAL Rules") in effect, which rules are deemed to be incorporated by reference into this subsection 12.11 (b)(i).

(ii) The arbitration tribunal shall consist of three (3) arbitrators to be appointed according to the UNCITRAL Rules. The seat of arbitration shall be Hong Kong. The language of the arbitration shall be English. The arbitrators shall decide any dispute submitted by the parties to the arbitration strictly in accordance with the substantive law of Hong Kong and shall not apply any other substantive law.

(iii) Each party hereto shall cooperate with any party to the dispute in making full disclosure of and providing complete access to all information and documents requested by such party in connection with such arbitration proceedings, subject only to any confidentiality obligations binding on the party receiving the request.

(iv) The award of the arbitration tribunal shall be final and binding upon the disputing parties, and any party to the dispute may apply to a court of competent jurisdiction for enforcement of such award.

(v) The parties understand and agree that this provision regarding arbitration shall not prevent any party from pursuing preliminary equitable or injunctive relief in a judicial forum pending arbitration in order to compel another party to comply with this provision, to preserve the status quo prior to the invocation of arbitration under this provision, or to prevent or halt actions that may result in irreparable harm. A request for such equitable or injunctive relief shall not waive this arbitration provision.

12.12 Most Favored Preferred Holders. Each Preferred Holder shall, at its sole option, be entitled to the rights, privileges or preferences not less favorable than those granted to the existing shareholders. In the event the Company hereafter grants any existing shareholders any rights, privileges or preferences more favorable than those granted to such Preferred Holder, such Preferred Holder shall, at its option, be entitled to the same rights, privileges or preferences pari passu with the other existing shareholders. In the event that a Preferred Holder so elects, the Covenantors (as defined in the Series D Share Purchase Agreement) shall procure that such Preferred Holder will be entitled to such rights, privileges and/or preferences.

12.13 Effectiveness. This Agreement shall become effective and binding on each of the parties hereto except Formosa from the First Closing Date (as defined in the Series D Share Purchase Agreement). With respect to Formosa, this Agreement shall become effective and binding on Formosa from the Closing Date (as defined in the Formosa Series D Share Purchase Agreement). For the avoidance of doubt, all the rights of all parties under this Agreement shall not be impacted by the inconsistency between such effective dates.
IN WITNESS WHEREOF, the parties have caused their respective duly authorized representatives to execute this Agreement as of the date and year first above written.

BLUECITY HOLDINGS LIMITED

By: /s/ MA BAOLI (马保力)
Name: MA BAOLI (马保力)
Title: Director

BLUECITY HOLDINGS HONG KONG LIMITED
(Seal)

By: /s/ MA BAOLI (马保力)
Name: MA BAOLI (马保力)
Title: Director

BEIJING BLUECITY CULTURE AND MEDIA CO., LTD. (北京蓝城兄弟文化传媒有限公司)
(Seal)

By: /s/ MA BAOLI (马保力)
Name: MA BAOLI (马保力)
Title: Legal Representative

Beijing BlueCity Information Technology Co., Ltd. (北京蓝城兄弟信息技术有限公司)
(Seal)

By: /s/ MA BAOLI (马保力)
Name: MA BAOLI (马保力)
Title: Legal Representative

BLUECITY HOLDINGS LIMITED
Signature Page to Fifth Amended and Restated Shareholders Agreement
IN WITNESS WHEREOF, the parties have caused their respective duly authorized representatives to execute this Agreement as of the date and year first above written.

BLUECITY INTERNATIONAL LTD.

By: /s/ Ma Baoli
Name: Ma Baoli
Title: Director

BLUE BABY LLC

By: /s/ Ma Baoli
Name: Ma Baoli
Title: Director

BLUECITY HOLDINGS LIMITED

Signature Page to Fifth Amended and Restated Shareholders Agreement
IN WITNESS WHEREOF, the parties have caused their respective duly authorized representatives to execute this Agreement as of the date and year first above written.

/s/ MA BAOLI (马保力)
MA BAOLI (马保力)

BLUECITY MEDIA LIMITED

By: /s/ MA BAOLI (马保力)
Name: MA BAOLI (马保力)
Title: Director

BLUECITY HOLDINGS LIMITED

Signature Page to Fifth Amended and Restated Shareholders Agreement
IN WITNESS WHEREOF, the parties have caused their respective duly authorized representatives to execute this Agreement as of the date and year first above written.

/s/ MA CHANGYOU (马长有)
MA CHANGYOU (马长有)

BLUECITY HOLDINGS LIMITED
Signature Page to Fifth Amended and Restated Shareholders Agreement
IN WITNESS WHEREOF, the parties have caused their respective duly authorized representatives to execute this Agreement as of the date and year first above written.

MADE IN CHINA LTD.

By: /s/ Chen Rong
Name: Chen Rong
Title: Authorized Signatory

BLUECITY HOLDINGS LIMITED
Signature Page to Fifth Amended and Restated Shareholders Agreement
IN WITNESS WHEREOF, the parties have caused their respective duly authorized representatives to execute this Agreement as of the date and year first above written.

CRYSTAL STREAM FUND, L.P.

By: /s/ Wang Mengqiu
Name: Wang Mengqiu
Title: Authorized Signatory

BLUECITY HOLDINGS LIMITED
Signature Page to Fifth Amended and Restated Shareholders Agreement
IN WITNESS WHEREOF, the parties have caused their respective duly authorized representatives to execute this Agreement as of the date and year first above written.

A-Fund, L. P.

By:  /s/ Matthew Boner
Name: Matthew Boner
Title: Authorized Signatory

BLUECITY HOLDINGS LIMITED

Signature Page to Fifth Amended and Restated Shareholders Agreement
IN WITNESS WHEREOF, the parties have caused their respective duly authorized representatives to execute this Agreement as of the date and year first above written.

SHUNWEI VENTURES III LIMITED

By: /s/ KOH TUCK LYE
Name: KOH TUCK LYE
Title: Director

BLUECITY HOLDINGS LIMITED

Signature Page to Fifth Amended and Restated Shareholders Agreement
IN WITNESS WHEREOF, the parties have caused their respective duly authorized representatives to execute this Agreement as of the date and year first above written.

Ventech China III SICAR
By: /s/ Eric Antoine Pascal Huet
Name: Eric Antoine Pascal Huet
Title: Authorized Signatory

BLUECITY HOLDINGS LIMITED
Signature Page to Fifth Amended and Restated Shareholders Agreement
IN WITNESS WHEREOF, the parties have caused their respective duly authorized representatives to execute this Agreement as of the date and year first above written.

VenTec PCC Limited (on behalf of Cell 4)

By: /s/ Eric Antoine Pascal Huet
Name: Eric Antoine Pascal Huet
Title: Authorized Signatory

BLUECITY HOLDINGS LIMITED

Signature Page to Fifth Amended and Restated Shareholders Agreement
IN WITNESS WHEREOF, the parties have caused their respective duly authorized representatives to execute this Agreement as of the date and year first above written.

Truly Delight Limited

By: /s/ Chan Ching
Name: Chan Ching
Title: Director

BLUECITY HOLDINGS LIMITED

Signature Page to Fifth Amended and Restated Shareholders Agreement
IN WITNESS WHEREOF, the parties have caused their respective duly authorized representatives to execute this Agreement as of the date and
year first above written.

Prince Profit International Limited

By: /s/ Chan Ching
Name: Chan Ching
Title: Director

BLUECITY HOLDINGS LIMITED

Signature Page to Fifth Amended and Restated Shareholders Agreement
IN WITNESS WHEREOF, the parties have caused their respective duly authorized representatives to execute this Agreement as of the date and year first above written.

BAI GmbH
By: /s/ Dr. Hendrik Horn
Name: Dr. Hendrik Horn
Title: Authorized Signatory

By: /s/ Thomas Werth
Name: Thomas Werth
Title: Authorized Signatory

BLUECITY HOLDINGS LIMITED
Signature Page to Fifth Amended and Restated Shareholders Agreement
IN WITNESS WHEREOF, the parties have caused their respective duly authorized representatives to execute this Agreement as of the date and year first above written.

**ARCADIA INVESTMENT LIMITED**

By: /s/ Fang Mark  
Name: Fang Mark  
Title: Authorized signatory

**BLUECITY HOLDINGS LIMITED**  
Signature Page to Fifth Amended and Restated Shareholders Agreement
IN WITNESS WHEREOF, the parties have caused their respective duly authorized representatives to execute this Agreement as of the date and year first above written.

CHINA PROSPERITY CAPITAL ALPHA LIMITED

By: /s/ Hendrick Sin  
Name: Hendrick Sin  
Title: Authorized Signatory

BLUECITY HOLDINGS LIMITED

Signature Page to Fifth Amended and Restated Shareholders Agreement
IN WITNESS WHEREOF, the parties have caused their respective duly authorized representatives to execute this Agreement as of the date and year first above written.

PRIMEVERA INC.
By: /s/ Chang, Pin-Hao
Name: Chang, Pin-Hao
Title: Authorized Signatory

BLUECITY HOLDINGS LIMITED
Signature Page to Fifth Amended and Restated Shareholders Agreement
IN WITNESS WHEREOF, the parties have caused their respective duly authorized representatives to execute this Agreement as of the date and year first above written.

RAINBOW RAIN LIMITED

By: /s/ Ma Xiaoyu
Name: Ma Xiaoyu
Title: Authorized Signatory

BLUECITY HOLDINGS LIMITED

Signature Page to Fifth Amended and Restated Shareholders Agreement
IN WITNESS WHEREOF, the parties have caused their respective duly authorized representatives to execute this Agreement as of the date and year first above written.

Formosa Opportunity Limited-UG Formosa Patriot Fund

By: /s/ Ming P. Wang
Name: Ming P. Wang
Title: Authorized Signatory

BLUECITY HOLDINGS LIMITED

Signature Page to Fifth Amended and Restated Shareholders Agreement
EXHIBIT A

Notices

TO THE GROUP COMPANIES, MA CHANGYOU, THE FOUNDER AND THE FOUNDER HOLDING COMPANY:

Address: [******]
Attn: [******]
Email: [******]

TO MADE IN CHINA LTD:

Address: [******]
Attn: [******]

TO Crystal Stream Fund, L.P.:

Address: [******]
Attn: [******]
Email: [******]

TO A-Fund, L.P.:

Address: [******]
Attn: [******]
Email: [******]

TO Shunwei Ventures III Limited:

Address: [******]
Attn: [******]

With a copy to:

Address: [******]
Attn: [******]
Tel: [******]
Fax: [******]
TO Ventech China III SICAR and VenTec PCC Limited (on behalf of Cell 4)

Address: [******]
Attn: [******]
Tel: [******]
Fax: [******]
Email: [******]

TO Truly Delight Limited and Prince Profit International Limited

Address: [******]
Attn: [******]
Tel: [******]
Fax: [******]

TO BAI GmbH

Address: [******]
Telephone: [******]
Facsimile: [******]
Attention: [******]
Email: [******]

With a copy to:

Bertelsmann Management (Shanghai) Co., Ltd., Beijing Branch (贝塔斯曼管理(上海)有限公司北京分公司)

Address: [******]
Telephone: [******]
Facsimile: [******]
Attention: [******]
Email: [******]

TO VKC

Attn: [******]
Address: [******]
Tel: [******]
Email: [******]

TO CPC

Attn: [******]
Address: [******]
Tel: [******]
Email: [******]
TO Primevera Inc.
Attn: [******]
Address: [******]
Tel.: [******]
Email: [******]

TO CDH
Attn: [******]
Address: [******]
Email: [******]

TO Formosa Opportunity Limited-UG Formosa Patriot Fund
Attn: [******]
Address: [******]
Email: [******]
EXHIBIT B

REGISTRATION RIGHTS

1. Applicability of Rights; Non-U.S. Registrations.

1.1 The Holders shall be entitled to the following rights with respect to any potential public offering of the Company’s Ordinary Shares in the United States and shall be entitled to reasonably analogous or equivalent rights with respect to any other offering of Company securities in any other jurisdiction pursuant to which the Company undertakes to publicly offer or list such securities for trading on a recognized securities exchange.

1.2 For purposes of this Agreement and Exhibit B, reference to registration of securities under the Securities Act and the Exchange Act shall be deemed to mean the equivalent registration in a jurisdiction other than the United States as designated by such Holders, it being understood and agreed that in each such case all references in this Agreement to the Securities Act, the Exchange Act and rules, forms of registration statements and registration of securities thereunder, U.S. law and the SEC, shall be deemed to refer, to the equivalent statutes, rules, forms of registration statements, registration of securities and laws of and equivalent government authority in the applicable non-U.S. jurisdiction.

2. Demand Registration.

2.1 Request by Holders.

If the Company shall, at any time after the earlier of (i) forty-eight (48) months after the Second Closing (as defined in the Series D Share Purchase Agreement) or (ii) any time following the completion of a Qualified IPO, receive a written request from the Holders of at least thirty percent (30%) of the Registrable Securities then outstanding that the Company file a registration statement under the Securities Act covering the registration of all or any portion of the Registrable Securities pursuant to this Section 2, then the Company shall, within ten (10) Business Days of the receipt of such written request, give written notice of such request (the “Request Notice”) to all Holders, and use its commercially reasonable efforts to effect, as soon as practicable, the registration under the Securities Act of all Registrable Securities that the Holders request to be registered and included in such registration by written notice given by such Holders to the Company within twenty (20) days after receipt of the Request Notice, subject only to the limitations of this Section 2; provided that the Company shall not be obligated to effect any such registration if the Company has, within the six (6) month period preceding the date of such request, already effected a registration under the Securities Act pursuant to this Section 2 or Section 4 or in which the Holders had an opportunity to participate pursuant to the provisions of Section 3, other than a registration from which the Registrable Securities of the Holders have been excluded (with respect to all or any portion of the Registrable Securities the Holders requested be included in such registration) pursuant to the provisions of Sections 2.2(b) or 3.2(b).
2.2 Underwriting.

(a) If the Holders initiating the registration request under this Section 2 (the “Initiating Holders”) intend to distribute the Registrable Securities covered by their request by means of an underwriting, then they shall so advise the Company as a part of their request made pursuant to this Section 2 and the Company shall include such information in the Request Notice. In such event, the right of any Holder to include its Registrable Securities in such registration shall be conditioned upon such Holder’s participation in such underwriting and the inclusion of such Holder’s Registrable Securities in the underwriting (unless otherwise mutually agreed by a majority in interest of the Initiating Holders and such Holder) to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall enter into an underwriting agreement in customary form with the managing underwriter or underwriters selected for such underwriting by the Holders of a majority of the Registrable Securities being registered and reasonably acceptable to the Company.

(b) Notwithstanding any other provision of this Section 2, if the underwriter(s) advise(s) the Company in writing that marketing factors require a limitation of the number of securities to be underwritten then the Company shall so advise all Holders of Registrable Securities which would otherwise be registered and underwritten pursuant hereto, and the number of Registrable Securities that may be included in the underwriting shall be reduced as required by the underwriter(s) and allocated (i) first, to the Holders on a pro rata basis according to the number of Registrable Securities then outstanding held by each Holder requesting registration and (ii) then, to the other Holders of Registrable Securities on a pro rata basis according to the number of Registrable Securities then outstanding held by each such Holder requesting registration; provided, however, that the number of shares of Registrable Securities to be included in such underwriting and registration shall not be reduced unless all other securities are first entirely excluded from the underwriting and registration including, without limitation, all shares that are not Registrable Securities and are held by any other person, including, without limitation, any person who is an employee, officer or director of the Company or any subsidiary of the Company; provided further, that at least twenty-five percent (25%) of shares of Registrable Securities requested by the Holders to be included in such underwriting and registration shall be so included. If any Holder disapproves of the terms of any such underwriting, such Holder may elect to withdraw therefrom by written notice to the Company and the underwriter(s), delivered at least ten (10) Business Days prior to the effective date of the registration statement. Any Registrable Securities excluded or withdrawn from such underwriting shall be excluded and withdrawn from the registration.

2.3 Maximum Number of Demand Registrations.

The Company shall not be obligated to effect more than two (2) such registrations pursuant to this Section 2 provided that if the sale of all of the Registrable Securities sought to be included pursuant to this Section 2 is not consummated for any reason other than due to the action or inaction of the Holders including Registrable Securities in such Registration, such Registration shall not be deemed to constitute one of the Registration rights granted pursuant to this Section 2.

2.4 Deferral.

Notwithstanding the foregoing, if the Company shall furnish to Holders requesting registration pursuant to this Section 2, a certificate signed by the president or CEO of the Company stating that in the good faith judgment of the Board, it would be materially detrimental to the Company and its shareholders for such registration statement to be filed at such time, then the Company shall have the right to defer such filing for a period of not more than ninety (90) days after receipt of the request of the Initiating Holders; provided, however, that the Company may not utilize this right more than once in any twelve (12) month period; provided further, that the Company shall not register any other of its shares during such twelve (12) month period. A demand right shall not be deemed to have been exercised until such deferred registration shall have been effected.
3. Piggyback Registrations.

3.1 The Company shall notify all Holders of Registrable Securities in writing at least thirty (30) days prior to filing any registration statement under the Securities Act for purposes of effecting a public offering of securities of the Company (including, but not limited to, registration statements relating to secondary offerings of securities of the Company, but excluding registration statements relating to any registration under Section 2 or Section 4 of this Agreement or to any employee benefit plan or a corporate reorganization) and shall afford each such Holder an opportunity to include in such registration statement all or any part of the Registrable Securities then held by such Holder. Each Holder desiring to include in any such registration statement all or any part of the Registrable Securities held by it shall within twenty (20) days after receipt of the above-described notice from the Company, so notify the Company in writing, and in such notice shall inform the Company of the number of Registrable Securities such Holder wishes to include in such registration statement. If a Holder decides not to include all of its Registrable Securities in any registration statement thereafter filed by the Company, such Holder shall nevertheless continue to have the right to include any Registrable Securities in any subsequent registration statement or registration statements as may be filed by the Company with respect to offerings of its securities, all upon the terms and conditions set forth herein.

3.2 Underwriting.

(a) If a registration statement under which the Company gives notice under this Section 3 is for an underwritten offering, then the Company shall so advise the Holders of Registrable Securities. In such event, the right of any such Holder’s Registrable Securities to be included in a registration pursuant to this Section 3 shall be conditioned upon such Holder’s participation in such underwriting and the inclusion of such Holder’s Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their Registrable Securities through such underwriting shall enter into an underwriting agreement in customary form with the managing underwriter or underwriters selected for such underwriting.

(b) Notwithstanding any other provision of this Agreement, if the managing underwriter(s) determine(s) in good faith that marketing factors require a limitation of the number of shares to be underwritten, then the managing underwriter(s) may exclude shares from the registration and the underwriting, and the number of shares that may be included in the registration and the underwriting shall be allocated, first, to the Company, second, to each of the Holders requesting inclusion of their Registrable Securities in such registration statement on a pro rata basis based on the total number of shares of Registrable Securities then held by each such Holder, third, to the other Holders requesting inclusion of their Registrable Securities in such registration statement on a pro rata basis based on the total number of shares of Registrable Securities then held by each such Holder and fourth, to holders of other securities of the Company; provided, however, that the right of the underwriter(s) to exclude shares (including Registrable Securities) from the registration and underwriting as described above shall be restricted so that (i) the number of Registrable Securities included in any such registration is not reduced below twenty-five percent (25%) of the aggregate number of shares of Registrable Securities for which inclusion has been requested; and (ii) all shares that are not Registrable Securities and are held by any other person, including, without limitation, any person who is an employee, officer or director of the Company (or any subsidiary of the Company) shall first be excluded from such registration and underwriting before any Registrable Securities are so excluded, unless otherwise approved by the holders of a majority of the Registrable Securities. If any Holder disapproves of the terms of any such underwriting, such Holder may elect to withdraw therefrom by written notice to the Company and the underwriter(s), delivered at least ten (10) Business Days prior to the effective date of the registration statement. Any Registrable Securities excluded or withdrawn from such underwriting shall be excluded and withdrawn from the registration.
3.3 Not Demand Registration.

Registration pursuant to this Section 3 shall not be deemed to be a demand registration as described in Section 2 above. There shall be no limit on the number of times the Holders may request registration of Registrable Securities under this Section 3.

4. Form F-3 Registration or Form S-3 Registration.

Subject to the terms of this Agreement, if the Company qualifies for registration on Form F-3 or Form S-3 (or any comparable form for registration in a jurisdiction other than the United States), any Holder may, with no limitation request the Company to file, in any jurisdiction in which the Company has had a registered underwritten public offering, a registration statement on Form F-3 or Form S-3 (or any comparable form for registration in a jurisdiction other than the United States), including without limitation any registration statement filed under the Securities Act providing for the registration of, and the sale on a continuous or a delayed basis by the Holder of, all of the Registrable Securities pursuant to Rule 415 under the Securities Act and/or any similar rule that may be adopted by SEC. In case the Company shall receive from any Holder a written request or requests that the Company effect a registration on Form F-3 or Form S-3 and any related qualification or compliance with respect to all or a part of the Registrable Securities owned by such Holder or Holders, then the Company will:

4.1 Notice.

Promptly give written notice of the proposed registration and the Holder’s or Holders’ request therefor, and any related qualification or compliance, to all other Holders of Registrable Securities; and

4.2 Registration.

As soon as practicable, effect such registration and all such qualifications and compliances as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Holders or Holders’ Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any other Holder or Holders joining in such request as are specified in a written request given within twenty (20) days after the Company provides the notice contemplated by Section 4.1; provided, however, that the Company shall not be obligated to effect any such registration, qualification or compliance pursuant to this Section 4:

(a) if Form F-3 or Form S-3 is not available for such offering by the Holders;
(b) if the Holders, together with the holders of any other securities of the Company entitled to inclusion in such registration, propose to sell Registrable Securities and such other securities (if any) at an aggregate price to the public of less than US$1,000,000;

(c) if the Company shall furnish to the Holders a certificate signed by the president or CEO of the Company stating that in the good faith judgment of the Board, it would be materially detrimental to the Company and its shareholders for such Form F-3 or Form S-3 Registration to be effected at such time, in which event the Company shall have the right to defer the filing of the Form F-3 registration or Form S-3 statement no more than once during any twelve (12) month period for a period of not more than sixty (60) days after receipt of the request of the Holder or Holders under this Section 4; provided that the Company shall not register any of its other shares during such sixty (60) day period. A registration right under Section 4 shall not be deemed to have been exercised until such deferred registration shall have been effected;

(d) if the Company has, within the six (6) month period preceding the date of such request, already effected a registration under the Securities Act other than a registration from which the Registrable Securities of Holders have been excluded (with respect to all or any portion of the Registrable Securities the Holders requested be included in such registration) pursuant to the provisions of Sections 2.2 and 3.2; or

(e) in any particular jurisdiction in which the Company would be required to qualify to do business or to execute a general consent to service of process in effecting such registration, qualification or compliance.

4.3 Not a Demand Registration.

Form F-3 or Form S-3 registrations shall not be deemed to be demand registrations as described in Section 2 above. Except as otherwise provided herein, there shall be no limit on the number of times the Holders may request registration of Registrable Securities under this Section 4.

4.4 Underwriting.

If the Holders of Registrable Securities requesting registration under this Section 4 intend to distribute the Registrable Securities covered by their request by means of an underwriting, the provisions of Section 2.2 shall apply to such registration.
5. Expenses.

All Registration Expenses incurred in connection with any registration pursuant to Sections 2, 3 or 4 (but excluding Selling Expenses) shall be borne by the Company. Each Holder participating in a registration pursuant to Sections 2, 3 or 4 shall bear such Holder’s proportionate share (based on the total number of shares sold in such registration other than for the account of the Company) of all Selling Expenses or other amounts payable to underwriter(s) or brokers, in connection with such offering by the Holders. Notwithstanding the foregoing, the Company shall not be required to pay for any expenses of any registration proceeding begun pursuant to Section 2 if the registration request is subsequently withdrawn at the request of the Holders of a majority of the Registrable Securities to be registered, unless the Holders of a majority of the Registrable Securities then outstanding agree that such registration constitutes the use by the Holders of one (1) demand registration pursuant to Section 2 (in which case such registration shall also constitute the use by all Holders of Registrable Securities of one (1) such demand registration); provided further, however, that if at the time of such withdrawal, the Holders have learned of a material adverse change in the condition, business, or prospects of the Company not known to the Holders at the time of their request for such registration and have withdrawn their request for registration with reasonable promptness after learning of such material adverse change, then the Holders shall not be required to pay any of such expenses and such registration shall not constitute the use of a demand registration pursuant to Section 2.

6. Obligations of the Company.

Whenever required to effect the registration of any Registrable Securities under this Agreement the Company shall, as expeditiously as reasonably possible:

6.1 Registration Statement.

Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its commercially reasonable efforts to cause such registration statement to become effective, and, upon the request of the Holders of a majority of the Registrable Securities registered thereunder, keep such registration statement effective for a period of up to ninety (90) days or, in the case of Registrable Securities registered under Form F-3 or Form S-3 in accordance with Rule 415 under the Securities Act or a successor rule, until the distribution contemplated in the registration statement has been completed; provided, however, that (i) such ninety (90) day period shall be extended for a period of time equal to the period any Holder refrains from selling any securities included in such registration at the request of the underwriter(s), and (ii) in the case of any registration of Registrable Securities on Form F-3 or Form S-3 which are intended to be offered on a continuous or delayed basis, such ninety (90) day period shall be extended, if necessary, to keep the registration statement effective until all such Registrable Securities are sold.

6.2 Amendments and Supplements.

Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement.

6.3 Prospectuses.

Furnish to the Holders such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of the Registrable Securities owned by them that are included in such registration.
Blue Sky.

Use its commercially reasonable efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act.

Underwriting.

In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement in usual and customary form, with the managing underwriter(s) of such offering.

Notification.

Notify each Holder of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of (i) the issuance of any stop order by the SEC in respect of such registration statement, or (ii) the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

Opinion and Comfort Letter.

Furnish, at the request of any Holder requesting registration of Registrable Securities, on the date that such Registrable Securities are delivered to the underwriter(s) for sale, if such securities are being sold through underwriters, or, if such securities are not being sold through underwriters, on the date that the registration statement with respect to such securities becomes effective, (i) an opinion, dated as of such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering and reasonably satisfactory to a majority in interest of the Holders requesting registration, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities and (ii) letters dated as of (1) the effective date of the registration statement covering such Registrable Securities and (2) the closing date of the offering from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering and reasonably satisfactory to a majority in interest of the Holders requesting registration, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities.

Furnish Information.

It shall be a condition precedent to the obligations of the Company to take any action pursuant to Sections 2, 3 or 4 that the selling Holders shall furnish to the Company such information regarding themselves, the Registrable Securities held by them and the intended method of disposition of such securities as shall be required to timely effect the Registration of their Registrable Securities.
8. Indemnification.

In the event anyRegistrable Securities are included in a registration statement under Sections 2, 3 or 4:

8.1 By the Company.

To the extent permitted by law, the Company will indemnify and hold harmless each Holder, its partners, officers, directors, legal counsel, any underwriter (as defined in the Securities Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act or other United States federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"): 

(a) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto;

(b) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading; or

(c) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any United States federal or state securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or any United States federal or state securities law in connection with the offering covered by such registration statement;

and the Company will reimburse each such Holder, its partner, officer, director, legal counsel, underwriter or controlling person for any legal or other expenses reasonably incurred by them, as incurred, in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 8.1 shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by such Holder or any partner, officer, director, counsel, underwriter or controlling person of such Holder.
8.2 By Selling Holders.

To the extent permitted by law, each selling Holder will, if Registrable Securities held by Holder are included in the securities as to which such registration qualifications or compliance is being effected, indemnify and hold harmless the Company, each of its directors, each of its officers who has signed the registration statement, each person, if any, who controls the Company within the meaning of the Securities Act, any underwriter and any other Holder selling securities under such registration statement or any of such other Holder’s partners, directors, officers, legal counsel or any person who controls such Holder within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages or liabilities (joint or several) to which the Company or any such director, officer, legal counsel, controlling person, underwriter or other such Holder, partner or director, officer or controlling person of such other Holder may become subject under the Securities Act, the Exchange Act or other United States federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder expressly for use in connection with such registration; and each such Holder will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer, controlling person, underwriter or other Holder, partner, officer, director or controlling person of such other Holder in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 8.2 shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld; and provided further, that in no event shall any indemnity under this Section 8.2 exceed the net proceeds received by such Holder in the registered offering out of which the applicable Violation arises. The indemnity contained in this Section 8.2 shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder (which consent shall not be unreasonably withheld or delayed).

8.3 Notice.

Promptly after receipt by an indemnified party under this Section 8 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnified party under this Section 8, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential conflict of interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall relieve such indemnifying party of liability to the indemnified party under this Section 8 to the extent the indemnifying party is prejudiced as a result thereof, but the omission to so deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 8.
8.4 Contribution.

In order to provide for just and equitable contribution to joint liability under the Securities Act in any case in which either (i) any indemnified party makes a claim for indemnification pursuant to this Section 8 but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case notwithstanding the fact that this Section 8 provides for indemnification in such case, or (ii) contribution under the Securities Act may be required on the part of any indemnified party in circumstances for which indemnification is provided under this Section 8; then, and in each such case, the indemnified party and the indemnifying party will contribute to the aggregate losses, claims, damages or liabilities to which they may be subject (after contribution from others) in such proportion so that a Holder (together with its related persons) is responsible for the portion represented by the percentage that the public offering price of its Registrable Securities offered by and sold under the registration statement bears to the public offering price of all securities offered by and sold under such registration statement, and the Company and other selling Holders are responsible for the remaining portion. The relative fault of the indemnifying Party and of the indemnified Party shall be determined by a court of law by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying Party or by the indemnified Party and the parties’ relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; provided, however, that, in any such case: (A) no Holder will be required to contribute any amount in excess of the net proceeds to such Holder from the sale of all such Registrable Securities offered and sold by such Holder pursuant to such registration statement; and (B) no person or entity guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any person or entity who was not guilty of such fraudulent misrepresentation.

8.5 Survival.

The obligations of the Company and Holders under this Section 8 shall survive the completion of any offering of Registrable Securities in a registration statement, regardless of the expiration of any statutes of limitation or extensions of such statutes. No indemnifying party, in the defense of any such claim or litigation, shall, except with the consent of each indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation.

9. No Registration Rights to Third Parties.

Without the prior written consent of the Holders of a majority in interest of the Registrable Securities then outstanding, the Company covenants and agrees that it shall not grant, or cause or permit to be created, for the benefit of any person or entity any registration rights of any kind (whether similar to the demand, “piggyback” or Form F-3 or Form S-3 registration rights described in this Exhibit B, or otherwise) relating to any securities of the Company which are senior to, or on a parity with, those granted to the Holders of Registrable Securities.

10. Rule 144 Reporting.

With a view to making available the benefits of certain rules and regulations of the SEC which may at any time permit the sale of the Registrable Securities to the public without registration or pursuant to a registration on Form F-3, after such time as a public market exists for the Ordinary Shares, the Company agrees to:

10.1 Make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act, at all times after the effective date of the first registration under the Securities Act filed by the Company for an offering of its securities to the general public;
10.2 File with the SEC in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements); and

10.3 So long as a Holder owns any Registrable Securities, to furnish to such Holder forthwith upon request (i) a written statement by the Company as to its compliance with the reporting requirements of Rule 144 (at any time after ninety (90) days after the effective date of the Company’s initial public offering), the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements), or its qualification as a registrant whose securities may be resold pursuant to Form F-3 (at any time after it so qualifies), (ii) a copy of the most recent annual or quarterly report of the Company, and (iii) such other reports and documents of the Company as a Holder may reasonably request in availing itself of any rule or regulation of the SEC that permits the selling of any such securities without registration or pursuant to Form F-3.


Each shareholder of the Company agrees that, so long as it holds any voting securities of the Company, upon request by the Company or the underwriters managing the initial public offering of the Company’s securities, it will not (i) lend, offer, pledge, hypothecate, hedge, sell, contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any securities of the Company acquired and held by such Holder immediately prior to the effectiveness of the registration statement (other than those permitted to be included in the registration and other transfers to Affiliates permitted by law), or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such equity securities, without the prior written consent of the Company or such underwriters, as the case may be, for a period of time specified by the representative of the underwriters not to exceed one hundred and eighty (180) days from the effective date of the registration statement covering such initial public offering or the pricing date of such offering as may be requested by the underwriters. The Company and other shareholders will take all steps consistent with requirements of law to minimize the market stand-off of the Preferred Holder’s Preferred Share (or Ordinary Shares upon conversion of the Preferred Shares) in the event of a listing. The foregoing provision of this Section 11 shall not apply to the sale of any securities of the Company to an underwriter pursuant to any underwriting agreement, and shall only be applicable to the Holders if all officers, directors and holders of one percent (1%) (calculated on an as-converted to Ordinary Share basis) or more of the Company’s outstanding share capital enter into similar agreements, and if the Company or any underwriter releases any officer, director or holder of one percent (1%) (calculated on an as-converted to Ordinary Share basis) or more of the Company’s outstanding share capital from his or her sale restrictions so undertaken, then each Holder shall be notified prior to such release and shall itself be simultaneously released to the same proportional extent. The Company shall require all future acquirers of the Company’s securities holding at least one percent (1%) (calculated on an as-converted to Ordinary Share basis) of the then outstanding share capital of the Company to execute prior to a Qualified IPO a market stand-off agreement containing substantially similar provisions as those contained in this Section 11.
12. Definitions

For purposes of this Exhibit B and this Agreement, capitalized terms shall have the meanings set forth in this Section 12.

(a) “Exchange Act” means the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder, or any comparable law of any other jurisdiction in which the Company’s shares are subject to regulation.

(b) “Form S-3” or “Form F-3” means such form under the Securities Act as in effect on the date hereof (including Form S-3 or Form F-3, as appropriate) or any registration form under the Securities Act subsequently adopted by the SEC which permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the SEC.

(c) “Holder” means any person owning or having the rights to acquire Registrable Securities or any permitted assignee of record of such Registrable Securities to whom rights under this Exhibit B have been duly assigned in accordance with this Agreement.

(d) “register,” “registered,” and “registration” refer to a registration effected by preparing and filing a registration statement which is in a form which complies with, and is declared effective by the SEC in accordance with, the Securities Act.

(e) “Registrable Securities” means: (1) any Ordinary Shares of the Company issued or issuable pursuant to conversion of any Series D Shares, Series C-2 Shares, Series C-1 Shares, Series C Shares, Series B Shares or Series A-1 Shares, (2) any Ordinary Shares of the Company issued (or issuable upon the conversion or exercise of any warrant, right or other security which is issued) as a dividend or other distribution with respect to, or in exchange for or in replacement of, any Series D Shares, Series C-2 Shares, Series C-1 Shares, Series C Shares, Series B Shares or Series A-1 Shares, and (3) any other Ordinary Shares owned or hereafter acquired by the Series D Holder, Series C-2 Holder, Series C-1 Holders, the Series C Holders, the Series B Holder or the Series A-1 Holders. Notwithstanding the foregoing, “Registrable Securities” shall exclude any Registrable Securities sold by a person in a transaction in which rights under Exhibit B are not assigned in accordance with this Agreement and any Registrable Securities which are sold in a registered public offering under the Securities Act or analogous statute of another jurisdiction, or sold pursuant to Rule 144 promulgated under the Securities Act or analogous rule of another jurisdiction.

(f) “Registrable Securities then Outstanding” mean the number of Ordinary Shares of the Company that are Registrable Securities and are then issued and outstanding or would be outstanding assuming full conversion of all securities, warrants or other rights which are, directly or indirectly, convertible, exercisable or exchangeable into or for Registrable Securities.
“Registration Expenses” shall mean all expenses incurred by the Company in complying with Sections 2, 3 and 4 of this Exhibit B, including, without limitation, all registration and filing fees, printing expenses, fees, and disbursements of counsel for the Company, reasonable fees and disbursements of one (1) counsel for the Holders, “blue sky” fees and expenses and the expense of any special audits incident to or required by any such registration (but excluding the compensation of regular employees of the Company which shall be paid in any event by the Company).

“SEC” means the United States Securities and Exchange Commission, or comparable regulatory authority in any other jurisdiction having oversight over the trading of the Company’s Shares.

“SEC Rule 144” means Rule 144 promulgated by the SEC under the Securities Act (or comparable law in a jurisdiction other than the United States).

“SEC Rule 144(k)” means Rule 144(k) promulgated by the SEC under the Securities Act (or comparable law in a jurisdiction other than the United States).

The term “Securities Act” means the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder, or comparable law in a jurisdiction other than the United States.

The term “Selling Expenses” shall mean all underwriting discounts and selling commissions applicable to the sale of Registrable Securities pursuant to Sections 2, 3 and 4 of this Exhibit B.
JOINDER TO THE FIFTH AMENDED AND RESTATED SHAREHOLDERS AGREEMENT

This Joinder to the Fifth Amended and Restated Shareholders Agreement (“Joinder Agreement”) is made and entered into as of February 8, 2018, by and between BlueCity Holdings Limited (the “Company”), FH Priolo Limited and FH Saltator Limited (collectively, the “New Shareholders”, each a “New Shareholder”).

WHEREAS

(A) As of November 2, 2017, the Company, certain existing shareholders of the Company and certain other parties entered into a Fifth Amended and Restated Shareholders Agreement (the “Shareholders Agreement”).

(B) The New Shareholders wish to acquire an aggregate of 288,240 series A preferred shares (the “Shares”) in the capital of the Company, and in accordance with the Shareholders Agreement, have agreed to enter into this Joinder Agreement.

(C) The Company is entering into this Joinder Agreement on behalf of itself and as agent for all the existing Shareholders of the Company.

NOW, THEREFORE, the Parties hereby agree as follows:

1. Interpretation. Capitalized terms used but not defined herein shall have the respective meanings ascribed to such terms in the Shareholder Agreement.

2. Agreement. Immediately upon purchase of the Shares, each New Shareholder (i) agrees that the Shares purchased by such New Shareholder shall be bound by and subject to the terms of the Shareholders Agreement applicable to the Shares, and (ii) hereby adopts and accedes to the terms of, agrees to be bound by, and assumes all rights and obligations under the terms and conditions of the Shareholders Agreement with the same force and effect as if such New Shareholder were originally a Preferred Holder thereunder. The other Parties to the Shareholders Agreement shall be entitled to enforce such agreement against such New Shareholder.

3. Share Transfer. New Shareholders are entitled to freely transfer their Shares in whole or in part to their Affiliates, which shall not be subject to transfer restrictions set forth in the Shareholders Agreement and/or in the Memorandum and Articles of Association of the Company.

4. Governing Law. This Joinder Agreement shall be governed by and construed in all respects in accordance with the laws of the Hong Kong, without regard to principles of conflict of laws thereunder.
5. **Counterparts.** This Joinder Agreement may be signed in any number of counterparts which together shall form one and the same agreement.

[Remainder of page intentionally left blank]
IN WITNESS whereof the parties have executed and delivered this Joinder Agreement on the date first above written.

NEW SHAREHOLDERS:

FH Saltator Limited

By: /s/ Kwek Hyen Yong
Name: Kwek Hyen Yong
Title: Director
IN WITNESS whereof the parties have executed and delivered this Joinder Agreement on the date first above written.

NEW SHAREHOLDERS:

FH Priolo Limited

By: /s/ Kwek Hyen Yong
Name: Kwek Hyen Yong
Title: Director
IN WITNESS whereof the parties have executed and delivered this Joinder Agreement on the date first above written.

COMPANY:
BlueCity Holdings Limited

By: /s/ Ma Baoli (马保力)
Name: Ma Baoli (马保力)
Title: Director
Powers of Attorney

I, MA Baoli (PRC ID Number: [***]) and MA Changyou (RPC ID Number: [***]), hold 100% equity interests in Beijing BlueCity Culture and Media Co., Ltd. ("BlueCity Culture") in aggregate ("Equity Interests"), and hereby unconditionally and irrevocably authorize the directors of the direct or indirect shareholders of Beijing BlueCity Technology & Information Co., Ltd. ("BlueCity Information") or other persons designated by BlueCity Information (each an "Authorized Person") during the term of this Powers of Attorney to exercise the following rights:

Authorizing the Authorized Person to exercise the following rights in relation to the Equity Interests on behalf of myself as the sole exclusive agent, including but not limited to, (1) attend the shareholders’ meeting of BlueCity Culture and execute relevant shareholders’ resolutions on behalf of myself; (2) exercise all shareholders’ rights that I am entitled to under the PRC laws and the articles of association of BlueCity Culture, including but not limited to, shareholders’ rights to vote, sell, transfer, pledge or dispose of all or a portion of the Equity Interests; (3) appoint and elect, as my authorized representative, the legal representative, chairman of the board of directors, directors, supervisors, general managers and other senior managements; (4) execute documents, meeting minutes and relevant filling documents in relation to the registration of the company kept by competent administrations of industry and commerce; and (5) exercise the voting right on behalf of the registered shareholders of BlueCity Culture when it is bankrupted.

Unless otherwise provided in this Powers of Attorney, the Authorized Person is entitled to declare, use or otherwise dispose of any cash dividends or bonuses generated by the Equity Interests or other non-cash earnings. Unless otherwise provided in this Powers of Attorney, the Authorized Person can take any actions in relation to Equity Interests at its own discretion without my written or oral instruction.

The Authorized Person is entitled to, within the scope of authorization, execute the Transfer Agreement referred in the Exclusive Option Agreement (to which agreement I am a party), and to perform the Equity Interest Pledge Agreement and Exclusive Option Agreement executed on the same date of this Powers of Attorney to which I am a party in time, and the exercise of such rights will not restrict this Power of Attorney.

All actions in relation to the Equity Interests by the Authorized Person shall be deemed as my actions, and all documents executed by the Authorized Person shall be deemed as executed by me, and acknowledge by me. If the Authorized Person intends to assign the authorized rights, with a five-day prior written notice to me, the Authorized Person is entitled to assign its rights under the aforementioned matters and the exercise of my Equity Interests to other individual or entity, without my consent.
During the term of this Powers of Attorney, I hereby waive all rights in relation to the Equity Interests which have been granted to the Authorized Person by this Powers of Attorney and I will no longer exercise such rights. Where part of this Powers of Attorney becomes invalid or unenforceable as compulsorily required by laws, the remaining authorization shall continuously be effective.

This Power of Attorney shall be come into effect on the execution date as of June 26, 2018, and shall be irrevocably and continuously effective during the term when I am the shareholder of BlueCity Culture, commencing from the execution date of this Powers of Attorney. Once this Powers of Attorney is terminated in full or in part upon the written notice of BlueCity Information, I will immediately withdraw my authorization and assignment to BlueCity Information hereto, and immediately execute a powers of attorney in the same format of this Powers of Attorney to make the same authorization and assignment to other persons nominated by BlueCity Information.

[The Remainder of this page is intentionally left blank]
MA Baoli (Signature): /s/ MA Baoli

MA Changyou (Signature): /s/ MA Changyou

Date: June 26, 2018
Equity Interest Pledge Agreement

This Equity Interest Pledge Agreement ("Agreement") is made and entered into by and among the following Parties in Beijing, the People’s Republic of China ("PRC") on June 26, 2018:

Pledgor 1: MA Baoli
Address: ***
PRC ID Number: ***

Pledgor 2: MA Changyou
Address: ***
PRC ID Number: ***

(Pledgor 1 and Pledgor 2 are hereinafter collectively referred to as “Pledgors”)

Pledgee: Beijing BlueCity Information & Technology Co., Ltd.
Address: ***

Target Company: Beijing BlueCity Culture and Media Co., Ltd.
Address: ***

Each of the Pledgee, Pledgors and Target Company shall hereinafter be referred to as a “Party,” and collectively as the “Parties.”

WHEREAS,

1. The Target Company is a limited liability company duly incorporated and validly existing in Beijing under the PRC laws;
2. As of the execution date of this Agreement, Pledgors hold 100% of equity interests in the Target Company in aggregate, of which, Pledgor 1 holds 99.15% of equity interests in the Target Company, representing RMB3,009,494 in the registered capital of the Target Company; and Pledgor 2 holds 0.85% of equity interests in the Target Company, representing RMB25,800 in the registered capital of the Target Company;
3. The Pledgee is a wholly foreign-owned enterprise duly incorporated and validly existing in Beijing, PRC;
The Pledgee and the Target Company have entered into an Exclusive Consulting and Services Agreement on June 26, 2018. (See Schedule II, the "Master Agreement");

Pursuant to the Master Agreement, the Pledgee is entitled to collect service fees from the Target Company; and

To ensure the Target Company’s fulfillment of all obligations under the Master Agreement, Pledgors are willing to pledge all of their current and future equity interests in the Target Company according to the terms and conditions of this Agreement to the Pledgee to secure its performance under the Master Agreement, and the Pledgee has agreed to accept such pledge.

THEREFORE, the Parties hereby mutually agree to execute this Agreement upon the following terms:

**Article 1 Definitions**

Unless otherwise provided herein, the terms below shall have the following meanings:

1.1 “Pledged Equity” means 100% of the equity interests in the Target Company lawfully now held and hereafter acquired by Pledgors, and all rights and benefits in connection therewith (including without limitation to dividends from the Pledged Equity).

1.2 “Secured Indebtedness” means the Target Company’s obligations or indebtedness under the Master Agreement (including any renewal, amendments or supplements thereto), including without limitation to, the consulting service fees, content provision fees, development and maintenance fees, interests, liquidated damages, indemnifications, expenses incurred for the realization of creditors’ rights, losses suffered by the Pledgee as a result of the Target Company’s default and all other expenses payable by the Target Company to the Pledgee under the Master Agreement.

**Article 2 Equity Pledge**

2.1 To secure the timely and complete payment when due (whether at stated maturity, by acceleration or otherwise) of any and all of the payments due by the Target Company under the Master Agreement, including without limitation to consulting and services fees payable to the Pledgee under the Master Agreement (regardless whether the payment is due as a result of the payment date, the requirement of advance payment, or other reasons), Pledgors hereby pledge to Pledgee the security interest in all of Pledger’s interest, whether now owned or hereafter acquired by Pledger, in the Equity Interest of the Target Company.
2.2 Pledge means the right held by the Pledgee to be compensated on a preferential basis with the conversion, auction or sales price of the Pledged Equity.

2.3 During the term of this Agreement, the Pledgee shall not be liable for any loss in the value of the Pledged Equity, nor shall Pledgors have any right to request or otherwise request the Pledgee in any method to indemnify for such loss, unless such loss is caused by the Pledgee’s willful misconduct or gross negligence.

2.4 In accordance with the Section 2.3 of this Agreement, in the event of any possible apparent loss in the value of the Pledged Equity that is sufficient to threaten the relevant interests of the Pledgee, the Pledgee is entitled to at any time auction or sell the Pledged Equity on behalf of the Pledgors, and treat the proceeds as advance repayment to the secured indebtedness under the agreement with the Pledgors, or appoint the notary office where the Pledgee located to keep the proceeds (any expenses arising therefrom shall be borne by the Pledgors).

2.5 The Parties agree that once the value of the equity interests increases, including but not limited to, as a result of the Target Company’s purchase of equity interests in other companies or the acquisition of material assets, when the Pledgee exercises the Pledge, the Pledgee will be compensated on a preferential basis with the price of the Pledged Equity at the time of exercise, instead of at the time of the execution of this Agreement.

2.6 The Pledgee shall be entitled to receive all cash earnings such as dividends and bonuses and all non-cash earnings or other distributable benefits generated by the Pledged Equity from the execution date of this Agreement to the termination date of the Pledge. From the execution date of this Agreement to the termination date of the Pledge, if Pledgors receive any dividends or bonuses generated by the Pledged Equity, the Pledgors shall pay such dividend or bonus to the Pledgee as of the date of receipt.

**Article 3 Term of the Pledge**

3.1 The Pledge shall become effective as of the date when the Pledge herein is registered with the administrations of industry and commerce, which will remain effective until the termination date or early termination of the Master Agreement, and when all payments due to the Pledgee under the Master Agreement have been settled or the Pledgee has realized its Pledge in accordance with the provisions of this Agreement (“Term of the Pledge”).

3.2 During the Term of the Pledge, in the event that the Target Company fails to make payments due to the Pledgee pursuant to the provisions of the Master Agreement, the Pledgee shall have the right, but without any obligation, to exercise or dispose of the Pledge in accordance with this Agreement and relevant PRC laws and regulations.
Article 4 Registration of the Pledge

4.1 The Parties agree that, Pledgors and the Target Company shall register the Pledge in the register of members of the Target Company as of the execution date of this Agreement and submit an application to the administrations of industry and commerce for the registration of the pledge contemplated herein within 10 business days following the execution of this Agreement; in addition, Pledgors and the Target Company shall submit all necessary documents and go through all necessary formalities in accordance with PRC laws and regulations and requirements of competent administrations of industry and commerce.

4.2 Where there is a change in the record of the Pledge and an amendment to such record is required under PRC laws, the Pledgee and Pledgors shall complete the amendment of the register of members as well as corresponding filling procedures with competent administrations of industry and commerce within 15 business days as of the date of change.

Article 5 Custody of Records for the Pledged Equity

5.1 During the Term of the Pledge provided in this Agreement, Pledgors shall procure the Target Company to execute the register of member attached herein (the Schedule I), and deliver the duly executed register of members to the Pledgee, and the Pledgee shall take custody of such documents during the Term of the Pledge.

5.2 Pledgors shall deliver the pledge registration certificate issued by the administration for industry and commerce within 5 business days from the registration of the Pledge, the Pledgee shall take custody of such documents during the Term of the Pledge provided in this Agreement.

Article 6 Representations and Warranties of Pledgors

6.1 Pledgors are PRC natural persons with full capacity for civil conducts, and are entitled to execute this Agreement and exercise rights and perform obligations herein.

6.2 The execution and performance of this Agreement are based on the Pledgors’ true expression of intention, the Pledgors have already obtained all necessary lawful authorizations, and all obligations borne by the Pledgors under this Agreement are lawful, effective and enforceable.

6.3 The execution and performance of this Agreement shall not be in violation of or in contradiction with the articles of associations of the Target Company, internal regulations of the Target Company, any agreements between the Target Company and any third party and relevant PRC laws and regulations, the approvals, authorizations, consents, permissions of competent PRC government authorities or PRC courts’ decisions or verdicts.
6.4 Pledgors are the sole legal owner of the Pledged Equity, and shall have the right to set the first priority to the Pledgee on the Pledged Equity.

6.5 Except for the equity purchase right granted under this Agreement and the Exclusive Option Agreement executed by and among Pledgors, the Pledgee and the Target Company dated as of June 26, 2018, Pledgors have not created any other pledge or any other form of third-party rights on their equity interests.

6.6 The Pledged Equity is free of any dispute of ownership, seizure, freezing, detention or supervision by any third party pursuant to the laws, and is not exempted by any litigations, enforcements, compulsory measures or other legal proceedings.

6.7 Pledgors are not involved in any existing or potential event of default under this Agreement, and there is no such risk to the best of Pledgors’ knowledge. There are no existing or continuously existing event of default under any contract to which the Pledgors are parties that may materially adversely affect the Pledgors, and there is no such risk to the best of Pledgors’ knowledge.

6.8 Pledgors have complied with and performed all relevant obligations provided in applicable PRC laws and regulations, and complied with all applicable authorizations and permissions. No conduct of Pledgors is in violation of any relevant PRC laws, regulations or rules or may cause material adverse effects to the validity, effectiveness, performance or enforceability of this Agreement.

6.9 To the best knowledge of Pledgors, no legal or administrative proceeding has been initiated by any courts, arbitral tribunals or governmental authorities against Pledgors or the Pledged Equity, and there is no such risk to the best of Pledgors’ knowledge.

6.10 All information (including documents, materials, statements and certificates) disclosed by Pledgors to the Pledgee is true, complete, accurate, effective and reasonable, without any false or misleading information, or neglecting to disclose any material matters.

Article 7 Covenant of Pledgors

7.1 Within the term of this Agreement, Pledgors hereby covenant to the Pledgee that:

7.1.1 Except for the performance of Exclusive Option Agreement and this Agreement, Pledgors shall not create any other security interests on all or a portion of the equity interests (regardless of any priority to the Pledge under this Agreement), without the prior written consent of the Pledgee, for the purpose of this Agreement, “Security Interest” means, including but not limited to, mortgages, pledges or other forms of third-party rights or interests, any equity purchase rights, acquisition rights, right of first refusal, right of set-off, liens or other security arrangements;
7.1.2 Without the prior written consent of the Pledgee, Pledgors shall not sell, lease, lend, transfer, assign, gift, re-pledge, custody, invest by the Pledged Equity or otherwise dispose of all or part of the Pledged Equity;

7.1.3 Pledgors shall not by themselves or allow others to make use of the Pledged Equity to engage in any conduct or event in violation of PRC laws and regulations or this Agreement; and

7.1.4 Upon the receipt of any notice, order, verdict, judgment or other document issued by any PRC governmental authorities, judicial or arbitral authorities in connection with the Pledged Equity, Pledgors shall immediately notify the Pledgee, and take all necessary measures to mitigate the risks against the Pledge Equity arising from such notice, order or other documents within the term stipulated by the law. Whenever the Pledgee determines to be necessary, Pledgors shall initiate lawsuits, arbitrations or administrative proceedings in relation to such notice, order or other documents and bear relevant expenses.

7.2 Pledgors hereby further agree that the rights acquired by the Pledgee in accordance with this Agreement with respect to the Pledge shall not be interrupted or impaired by Pledgors or any heirs or representatives of Pledgors or any other persons through any legal proceeding.

7.3 To protect or perfect the security interests granted by this Agreement, Pledgors hereby undertake to execute in good faith, to cause other parties who have an interest in the pledge to execute all certificates, deeds, and/or to perform and cause other parties who have an interest in the pledge to perform actions required by the Pledgee, to facilitate the exercise by Pledgee of its rights and authority granted thereto by this Agreement, to enter into all relevant documents regarding ownership of Equity Interest with the Pledgee or designee(s) of the Pledgee (natural persons/legal persons), and to provide the Pledgee within a reasonable time with all notices, orders and decisions regarding the pledge that are required by pledge. To protect the interests of Pledgee, Pledgors hereby undertake to obey and perform all promises, covenants, agreements, representations and conditions. In the event that Pledgors fail to perform or fully perform promises, covenants, agreements, representations and conditions, Pledgors shall compensate the Pledgee for all losses incurred therefrom.

Article 8 Event of Default

8.1 The following events shall be deemed as an event of default:

8.1.1 The Target Company fails to timely and fully perform any of its obligations under the Master Agreement, or fails to pay any secured indebtedness in full on schedule;
8.1.2 Any representation or warranty made by Pledgors under Section 6 of this Agreement is false, fraudulent, misleading or wrong;

8.1.3 Pledgors violate any covenant under Section 7 of this Agreement;

8.1.4 Pledgors refuse or deliberately delay to carry out the procedures of registration and filling, and fail to correct within 10 days from the Pledgee’s written request;

8.1.5 In accordance with laws and due to the fault of Pledgors (including omissions of acts), the Pledgee cannot dispose of the Pledge;

8.1.6 Any external loan, guarantee, indemnification, commitment or other debt repayment obligation of Pledgors (1) is required to be repaid or performed in advance due to breach of contract; or (2) is due but cannot be repaid or performed on time, which causes the Pledgee to reasonably believe Pledgors’ capacity to perform obligations herein has been substantially and adversely affected;

8.1.7 Due to the promulgation of relevant laws and regulations and the fault of Pledgors (including omission of acts), this Agreement becomes invalid, revocable, unenforceable or Pledgors cannot timely and fully perform obligations herein respectively;

8.1.8 Due to the fault of Pledgors (including omission of acts), any consent, permission, approval, registration or authorization required for the enforceability or legality or effectiveness of this agreement is revoked, suspended, becomes invalid or incurs substantially adverse change;

8.1.9 There are material adverse changes to the assets held by Pledgors, which causes the Pledgee to reasonably believe Pledgors’ capacity to perform obligations herein has been substantially and adversely affected;

8.1.10 The successors of the Target Company can only partially perform or refuse to perform the payment obligations under the Master Agreement; and

8.1.11 Pledgors violate any other provisions under this Agreement.

8.2 In the event that Pledgors notice or shall notice the occurrence of any circumstance or event that may lead to the aforementioned circumstances described in Section 8.1 of this Agreement, Pledgors shall notify Pledgee in writing accordingly in a timely manner.
Unless Pledgors take measures to rectify the event of default under the Section 8.1 of the Agreement to the satisfaction of the pledgee, the Pledgee may issue a written notice to exercise the Pledge to the Pledge, requesting to dispose of the Pledged Equity in accordance with provisions of this Agreement at any time on or after the occurrence of the events of default. For the avoidance of doubt, the Parties agree that subject to the Section 2.5 of this Agreement, the amount of indemnification for breach of contract borne by each Pledgor under this Agreement shall be limited to the full value of all the Pledged Equity held by such Pledgor.

The default clause set forth in this Section 8 shall not prejudice the exercise of any other remedies enjoyed by both Parties in accordance with PRC laws and regulations effective on the date hereof.

**Article 9 Exercise of the Pledge**

9.1 Subject to the provisions of Section 8.3, the Pledgee may exercise the right to enforce the Pledge at any time on or after the issuance of the notice on exercise of the Pledge.

9.2 The Pledgee is entitled to dispose of all or part of the Pledged Equity in accordance with legal procedures including but not limited to, being paid in priority with the equity interests based on the monetary valuation that such equity interest is converted into or from the proceeds from auction or sale of the Equity Interest until all secured indebtedness is cleared off.

9.3 When the Pledgee disposes of the Pledged Equity in accordance with this Agreement, Pledgors shall not place any barriers and shall provide necessary assistance to enable the Pledgee to enforce the pledge.

**Article 10 Assignment**

10.1 Without the Pledgee’s prior written consent, Pledgors shall not assign or delegate all or part of their rights and obligations under this Agreement to any third party.

10.2 This Agreement shall be binding on Pledgors and their successors and shall be binding on the Pledgee and each of its successors and assignees.

10.3 At any time, the Pledgee may assign all or a portion of its rights and obligations under the Master Agreement to its designee(s) (natural person or legal person), in which case the assignees shall have the rights and bear the obligations of the Pledgee under this Agreement, and Pledgors shall not raise any objection to such assignment.

10.4 In the event of a change in the Pledgee due to assignment, new parties to the pledge shall execute a new pledge agreement in the same format and with the same material terms as this Agreement, and Pledgors shall assist the new pledgee to execute relevant pledge agreements and complete the pledge registration.
Article 11 Termination

This Agreement shall terminate upon the expiration or termination in advance of the Master Agreement with the service fees and all obligations under the Master Agreement have been fully paid and fulfilled, and the Target Company no longer bears any obligations under the Master Agreement, or upon the transfer of the equity interests in the Target Company from Pledgors to the Pledgee and/or its designee(s) pursuant to the Exclusive Option Agreement. The Pledgee shall deregister the Pledge under this Agreement as soon as reasonably practicable.

Article 12 Handling Fees and Other Expenses

12.1 All fees relating to this Agreement, including but not limited to, legal fees, costs of production, stamp tax and any other taxes and fees, shall be borne by Pledgors and the Pledgee respectively pursuant to PRC laws and regulations, and Pledgors shall bear those fees not stipulated under PRC regulations.

12.2 In the event that Pledgors fail to pay any due taxes and fees, or for other reasons, the Pledgee shall be entitled to take all feasible remedial measures and all fees arising therefrom (including but not limited to, taxes fees, handling fees, management fees, litigation fees, legal fees and insurance fees) shall be borne by Pledgors.

Article 13 Force Majeure

13.1 A “Force Majeure Event” means an event beyond the reasonable control of a Party, which the affected Party is unable to avoid even with reasonable attention, including but not limited to, governmental act, fire, explosion, geographical change, storm, flood, earthquake, tidal wave, lightening, and war. However, the shortage of credit, capital and financing shall not be deemed as a Force Majeure Event. The Party affected by Force Majeure Event and seeking to be exempted from the obligations under this Agreement or any provisions of this Agreement shall notify the other Party about this exemption as soon as possible and take required steps to complete the performance.

13.2 In the event that the performance of this Agreement is delayed or impeded as a result of Force Majeure Events, the party affected by the Force Majeure Event shall not bear any liability for it under this Agreement, on the condition that the affected Party shall make all reasonable and feasible efforts to perform this Agreement or to mitigate the effects of force majeure, to the extent of the obligations delayed and impeded. Once the cause of such exemption has been rectified and remedied, all Parties agree to make their best endeavor to resume the performance of this Agreement.
Article 14 Dispute Resolution

14.1 This Agreement shall be governed and construed by PRC laws and regulations.

14.2 Any dispute arising out of the interpretation and performance of this Agreement, shall be resolved through friendly negotiation among the Parties. If the dispute is not resolved through negotiation, either Party can submit the dispute to China International Economic and Trade Arbitration Commission for arbitration in Beijing. The arbitral awards shall be final and binding upon the Parties thereto.

14.3 Upon the request of either Party to the dispute, the court of competent jurisdiction can grant temporary reliefs, such as seizing or freezing the assets or the equity interests of the Party in breach in accordance with decisions or verdicts. After the arbitral award takes effect, any Party is entitled to apply to a court of competent jurisdiction for enforcement of such award.

Article 15 Notice

Any notice or other correspondence sent pursuant to this Agreement shall be written in Chinese and when the notice is delivered personally or by registered mail, postage prepaid, a reputable courier service or by facsimile transmission to the address of the relevant Party or each Party set forth below, the notice shall be deemed to be effectively delivered.

Pledgee: Beijing BlueCity Information & Technology Co., Ltd.
Address: ***
Pledgors: MA Baoli, MA Changyou
Address: ***
Target Company: Beijing BlueCity Culture and Media Co., Ltd.
Address: ***

Article 16 Amendment, Termination and Interpretation

16.1 This Agreement may be amended, supplemented or terminated with the written consents from each Party and after each Party respectively obtaining necessary authorizations and approvals; and the attachments, appendices and any amendments and supplements thereof under this Agreement shall be an integral part of this Agreement.

16.2 The validity of all provisions set forth herein is independent to each other, and if any provision of the Agreement become invalid, the validity of the remaining provisions shall not in any way be affected.
Article 17 Effectiveness and Miscellaneous

17.1 This Agreement shall come into effect upon execution by the Parties as of the date first above written.

17.2 This Agreement is written in Chinese in five copies. Each Party shall hold one copy respectively and the remaining copies shall be used for pledge registrations.

[The Remainder of this page is intentionally left blank]
Pledgor-1: MA Baoli Signature: /s/ MA Baoli

Pledgor-2: MA Changyou Signature: /s/ MA Changyou

Pledgee: Beijing BlueCity Information & Technology Co., Ltd. (seal)
Authorized Representative: /s/ Beijing BlueCity Information & Technology Co., Ltd. (seal)

Target Company: Beijing BlueCity Culture and Media Co., Ltd. (seal)
Authorized Representative: /s/ Beijing BlueCity Culture and Media Co., Ltd. (seal)
### Register of Members of Beijing BlueCity Culture and Media Co., Ltd.

The name, capital contribution, and proportion of capital contribution of shareholders in Beijing BlueCity Culture and Media Co., Ltd. are as follows:

<table>
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<tr>
<th>Name of Shareholders</th>
<th>Subscribed Capital (0’000 in RMB)</th>
<th>Registered Capital (0’000 in RMB)</th>
<th>Paid-in Capital (0’000 in RMB)</th>
<th>Proportion of Capital Contribution</th>
<th>Address</th>
<th>Capital Contribution Verification Report No.</th>
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<td>MA Baoli</td>
<td>300.9494</td>
<td>300.9494</td>
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<td>99.15%</td>
<td>***</td>
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<tr>
<td>MA Changyou</td>
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<td>2.58</td>
<td>0.85%</td>
<td>***</td>
<td>[2011090702]</td>
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</tbody>
</table>

Beijing BlueCity Culture and Media Co., Ltd. (Seal)

Legal representative: /s/ Beijing BlueCity Culture and Media Co., Ltd. (Seal)

Date: September 7, 2011
1. MA Baoli and MA Changyou pledged 100% of equity interests in Beijing BlueCity Culture and Media Co., Ltd. to Beijing BlueCity Information & Technology Co., Ltd. on November 13, 2019.

Beijing BlueCity Culture and Media Co., Ltd. (Seal)

Legal representative: /s/ Beijing
BlueCity Culture and Media Co., Ltd.
(Seal)

Date: November 13, 2019
Schedule II: Exclusive Consulting and Services Agreement
This Exclusive Consulting and Services Agreement (this “Agreement”) is made and entered into by and between the following Parties in Beijing, the People’s Republic of China (“PRC”) on June 26, 2018:

Party A: Beijing BlueCity Information & Technology Co., Ltd.

Party B: Beijing BlueCity Culture and Media Co., Ltd.

Whereas:

1. Party A is a wholly foreign-owned enterprise incorporated and validly existing in Beijing, mainly conducts business in relation to consultancy, and development and maintenance of software and APPs (“Consultancy and Services”) with extensive experience and resources on Consultancy and Services.

2. Party B is a limited liability company incorporated and validly existing in Beijing;

3. Party B intends to engage Party A as its exclusive Consultancy and Services provider, which will provide Party B advises and services in relation to its operational activities.

Therefore, through mutual discussion, Party A and Party B have reached the following agreements:

Article 1 Consultancy and Services

1.1 Party B agrees to engage Party A as its exclusive Consultancy and Services provider, who will provide services and consultancy in relation to Party B’s operational activities set forth in Exhibit 1 in accordance with terms and conditions of this Agreement (“Consulting and Services”).

1.2 Party B’s assignment and authorization to Party A under this Agreement shall be sole, exclusive and irrevocable. Party B or its subsidiaries shall not accept Consultancy and Services provided by any third party (including its shareholders) without Party A’s prior written consent.

Article 2 Service Fee and Payment

2.1 Party B shall pay Party A service fees for the Consultancy and Services provided by Party A (“Service Fee”). Party A shall determine and pay the Service Fee at any profitable fiscal quarter pursuant to the methods set forth in Exhibit 2 of this Agreement.
2.2 Party A agrees that, during the term of this Agreement, Party A shall enjoy all economic benefits of, and bear all risks arising from, the business operation of Party B; to ensure that Party B could meet its daily operating cash flow requirements and/or for the purpose of offsetting any operating loss incurred, regardless of Party B’s actual occurrence of such operating losses, Party A may in its full discretion to provide financial support to Party B (to the extent permitted under PRC laws and regulations), and Party A may provide financial support to Party B in the form of loans, and they shall enter into independent loan agreements in relation to such loans; in the event that Party B incurs any operating loss or experiences significant operation difficulties, Party A is entitled to request Party B to cease its operations at any time, and Party B shall unconditionally accept the request of Party A.

2.3 In the event that Party B fails to pay the Service Fee and other expenses in accordance with this Agreement, Party B shall additionally pay liquidated damage in an amount representing 0.05% late payment per day to Party A.

2.4 If at its own expense, Party A is entitled to appoint its employees or other certified accountants or auditors in PRC or other countries (the “Authorized Representative of Party A”) to examine Party B’s accounts to review the calculation method and the amount of the Service Fee. For this purpose, Party B shall provide the Authorized Representative of Party A with all requested documents, accounts, records, data, and etc., so that the Authorized Representative of Party A can audit Party B’s accounts and determine the amount of the Service Fee, and Party B consent to the disclosure of such information and materials by Party A’s shareholders to the satisfaction of the requirements of securities regulations. Except for material mistakes, the amount of the Service Fee shall be the amount as determined by the Authorized Representative of Party A.

2.5 Party A and Party B hereby confirm that, the aforementioned Service Fee only includes the compensation that Party A shall be paid for the provision of Consultancy and Services. Party B shall bear all travel expenses, transportation expenses, postage and all expenses in relation to the engagement of the certified accountants or auditors.

2.6 Party B shall make payment of the Service Fee to Party A without any deduction (such as bank commissions and etc.), and Party B shall bear all such deductions.

2.7 Both Parties agree that, the services provided by Party A under this Agreement to Party B shall also be applicable to the subsidiaries controlled by Party B, and Party B shall procure each of its controlled subsidiaries to exercise rights and perform obligations in accordance with this Agreement.

2.8 Party A and Party B agree that both parties will jointly bear all economic losses incurred as a result of the performance of this Agreement.
2.9 Party B’s relevant shareholders will pledge their equity interests in Party B to Party A to secure all Service Fee, liquidated damages, actual expenses and indemnifications payable by Party B under this Agreement.

**Article 3 Obligations to Refrain from Acts**

Commencing from the signing date of this Agreement, unless obtained the written consent of Party A or its designated party, Party B shall not, and shall procure and ensure any of its subsidiaries not to conduct any of the following activities:

3.1 Any business not in the ordinary course of the company (“Business of the Company”) or not consistent with the former practice of the company or conducted in an informal way;

3.2 Any increase or decrease of registered capital of the company, any alternation on the structure of the company’s registered capital in other manners, any adjustment in relation to the business scope of the company or any amendments of the articles of association of the company;

3.3 Any change in the ordinary business procedure of the company, or any material amendment on the internal regulations and policies;

3.4 Any material adjustment with respect to its business models, marketing strategies, management policies or customer relationships;

3.5 Any contractual arrangements with any third parties with the purpose of controlling the company;

3.6 Any consolidation, merger, acquisition, joint venture or other forms of joint operation on the Business of the Company;

3.7 Any capital expenditure other than in the ordinary course of business of the company;

3.8 Execution of material contracts other than in the ordinary course of business of the company;

3.9 Dissolution or liquidation of the company;

3.10 Adoption or change of any business plan or annual budget of the company;

3.11 Causing the company to bear any debt other than in the ordinary course of business of the company;

3.12 Deferring any company’s due debt to third parties;

3.13 Inheriting or providing guarantee for any debt other than in the ordinary course of business of the company;

3.14 Providing guarantees to any third party with its assets or intellectual properties, or creating any other encumbrances on the company’s assets or interests;
3.15 Sale, transfer, pledge, permission or disposition of the any assets in other forms (including without limitation, any kinds of tangible assets, intellectual properties and other assets or relevant rights on the assets, such as copyrights, patents, patent applications, trademarks, software, technology secrets, business secrets or other rights) (other than in the ordinary course of business of the company), the business or the lawful rights to the revenue;

3.16 Any external investment;

3.17 Distribution of the profits and dividends in any form;

3.18 Any material change on the accounting policy of the company, or

3.19 Any engagement or change of the company’s auditor.

Article 4 Operation Management and Personnel Arrangement

4.1 Party B agrees to accept suggestions of Party A in relation to employment, dismissal of the company’s staff, daily operation and management of the company and financial management of the company, as well as to implement the above suggestions strictly.

4.2 To the extent of not violating PRC laws and regulations, Party B and/or any of its subsidiaries shall elect candidates recommend by Party A as the company’s directors/executive directors and senior managements (including the general manager, chief financial officer and other senior managements). Unless with the prior written consent from Party A or required by laws, Party B and/or any of its subsidiaries shall not refuse to elect Party A’s recommended candidates with any reasons.

4.3 Commencing from the execution date of this Agreement, unless with the prior consent from Party A or its designated parties, Party B shall not, and shall procure and ensure any of its subsidiaries not to engage, dismiss any director/ executive director or any senior management of the company, or amend conditions with regard to appointment/engagement of directors/executive directors or senior managements of the company.

Article 5 Intellectual Property

5.1 Any intellectual properties developed during the performance of this Agreement, including without limitation, copyrights, patent rights, technical secrets, business secrets and any other intellectual properties, shall be owned by Party A, despite that such intellectual properties developed by Party A independently or by Party B based on Party A’s intellectual properties or by Party A based on Party B’s intellectual properties. The licensing of such intellectual properties shall be determined by both parties after negotiation.

5.2 In the event that the development of the intellectual properties is carried out by Party A based on Party B’s intellectual properties, Party B shall ensure that such intellectual properties are free from any defect, and in the event that Party A suffers any loss due to the aforementioned defects, Party B shall bear such losses. If Party A becomes liable for compensation to any third party consequently, then Party A is entitled to recovery from Party B after Party A made such compensation.
Article 6 Confidentiality

6.1 Any party upon the acknowledgement of the technology materials and information of the other party as a result of the execution and performance of this Agreement ("Confidential Information"), regardless of whether the other Party has taken measures to keep confidentiality, such informed party shall bear confidentiality responsibility. The receiving party shall not reveal, disclose or transfer such Confidential Information to any third party, or use such Confidential Information for any third parties' benefits, unless with the prior written consent from the other Party.

6.2 The informed party undertakes that it will provide the Confidential Information to its employees, consultants, and agents only for the purpose of performance of this Agreement, and it shall ensure the employees, consultants, agents that have access to the Confidential Information to undertake confidentiality obligations same as so provided under this Article 6. Any breach by the aforementioned personnel shall be deemed as a breach of this Section 6 by the informed party and it shall assume the liability for breach of this Agreement.

6.3 Upon termination of this Agreement, the informed party shall return or destroy any documents or any other carriers containing the Confidential Information upon the request of the other party. The informed party shall not continue keeping or using such Confidential Information in any carrier.

6.4 Party A and Party B mutually agree that this Article 6 shall survive the amendment, cancellation or termination of this Agreement.

Article 7 Representations and Warranties

7.1 Party A hereby represents and warrants that:

7.1.1 Party A is a wholly foreign-owned enterprise incorporated in Beijing under the PRC laws and is in good standing.

7.1.2 Party A has taken necessary actions to be duly authorized and has obtained consents or approvals of third parties or government authorities. None of the provisions of this Agreement constitutes a violation of any applicable laws and the company’s internal regulations.

7.1.3 In relation to the execution and performance of this Agreement, none of the facts disclosed by Party A to Party B and the relevant PRC authorities contains any false information, and there is no negligence in disclosing any necessary and material events.

7.1.4 This Agreement shall become valid, effective and binding to Party A and can be enforced against Party A.
7.2 Party B hereby represents and warrants that:

7.2.1 Party B is a limited liability company incorporated in Beijing under the PRC laws and is validly existing.

7.2.2 Party B has taken necessary corporate actions to be duly authorized, and has obtained consents and approvals from third parties or government authorities; None of the provisions of this Agreement constitutes a violation of any binding or applicable laws and the company’s internal regulations.

7.2.3 In relation to the execution and performance of this Agreement, the facts disclosed by Party B to Party A and the relevant PRC authorities do not contain any false information or omission of any material events.

7.2.4 Party B shall promptly inform Party A of any situation that may bring or have brought adverse effects to its business operation, and shall make best efforts to prevent the occurrence of such situation and/or expansion of losses.

7.2.5 Party B shall not dispose of any material assets or change current shareholding structure in any way without the prior written consent of Party A.

7.2.6 This Agreement shall become valid, effective and binding upon its effectiveness and can be enforced against Party B.

Article 8 Indemnification

8.1 Unless otherwise provided in this Agreement, it shall constitute a breach of this Agreement if any party does not perform completely or cease to perform its obligations under this Agreement and fail to remedy within thirty days following the receipt of notice from the other party, or the representations and warranties of any party are not true.

8.2 In the event that any party breaches this Agreement or any representation or warranty under this Agreement, the other party can inform the breaching party in writing to require it to remedy such breach within a reasonable period or within ten (10) days after receiving the written notice, to take relevant effective and timely measures to avoid losses, and to continue the performance of this Agreement. In the case of any losses, the breaching party shall indemnify the other party to put it in such a position as if this Agreement has been normally performed, without prejudice to all other remedies available pursuant to this Agreement and laws and regulations.
8.3 The breaching party shall indemnify the other party (including without limitation, any losses or legal fees due to such breach) any expenses, liabilities and any other losses resulting from its breach of this Agreement, including without limitation, profit losses of the company. The total amount of indemnification payable to the breaching party shall equal to the amount of losses incurred due to such breach which shall include any profits that the non-breaching party is entitled to obtain due to its compliance of this Agreement as well, to the extent that the indemnification shall not exceed the reasonable expectations of both parties.

8.4 In the event of any claim of a third party due to Party B’s incompliance of Party A’s instruction, the improper use of Party A’s intellectual properties or the improper operation of any technology, Party B shall bear all relevant losses. Upon Party B’s knowledge of any third parties’ usage of Party A’s intellectual properties without lawful authorization, Party B shall inform Party A immediately and cooperate with Party A in relation to any of Party A’s actions.

Article 9 Effectiveness and Validity

9.1 This Agreement shall be effective upon the execution by both parties on the date of agreement indicated at the beginning of this Agreement.

9.2 The term of this Agreement shall be permanent unless terminated in accordance with this Agreement in advance.

9.3 Before expiration of this Agreement, if required by Party A, both parties shall change the term of this Agreement in accordance with Party A’s request, and execute another exclusive consulting and services agreement or perform this Agreement continuously.

Article 10 Termination

10.1 On the condition that it will not violate Party A’s laws or other rights or remedies due to other reasons, Party A is entitled to terminate this Agreement immediately with written notice to Party B in the event of the following conditions: (1) the default of Party B and Party B fails to remedy such defaults within 30 business days after the receipt of Party A’s written notice; (2) the termination of business, dissolution, liquidation, active or passive application of bankruptcy, revocation of business license or any other similar situations of Party B; (3) equity interests and/or assets held by Party B have been transferred to Party A and/or other person(s) designated by Party A in accordance with the Exclusive Option Agreement executed by and between Party B’s shareholders and Party A; or (4) once Party A is permitted by PRC laws to hold equity interests of Party B directly and Party A, its subsidiaries and branches are permitted to operate Party B’s business lawfully, this Agreement shall be terminated on the date that Party A is officially registered as the shareholder of Party B as agreed.

10.2 Within the term of this Agreement, Party A is entitled to terminate this Agreement at any time with a written notice thirty days in advance.
10.3 Within the term of this Agreement, Party B shall not terminate this Agreement in advance with any reason.

10.4 The rights and obligations under Article 6 and Article 8 shall survive the termination of this Agreement.

Article 11 Dispute Resolution

11.1 Any dispute arising out of the interpretation and performance of this Agreement shall be resolved in the first instance through negotiations in good faith. If the dispute is not resolved through negotiations within 30 days after the request of consultation on the dispute by one party, either party can submit the dispute to China International Economic and Trade Arbitration Commission (the “CIETAC”) for arbitration in Beijing and the then effective rules of arbitration shall be applied. The proceeding of arbitration shall be conducted in Chinese. The arbitral awards shall be final and binding upon the parties thereto.

11.2 Upon the request of either party to the dispute, the court of competent jurisdiction can grant provisional reliefs, such as seizing or freezing the assets or the equity interests of the party in breach. After the arbitral award takes effect, any party is entitled to apply to a court of competent jurisdiction for enforcement of such award.

11.3 Both parties shall continuously perform their obligations in good faith pursuant to this Agreement other than which is under dispute between the parties.

Article 12 Force Majeure

12.1 “Force Majeure Event” means an event which is unforeseeable to a party or is unable to avoid or recover even with reasonable attention, which includes, without limitation, war or natural disasters. Provided, however, insufficient of credits, capitals or financing shall not be deemed as a Force Majeure Event. Considering the special nature of computer networks, the Force Majeure Event shall include any of the following events that may impact the normal operation of either party’s computer network:

12.1.1 Attacked by hackers or computer virus;
12.1.2 Interrupted by material adjustment of telecom departments; or
12.1.3 Suspension of operation due to the temporary control of government authorities.
12.2 Where the performance of this Agreement is delayed or impeded due to the Force Majeure Event aforesaid, the party affected by the Force Majeure shall not bear any liability herein, provided that the affected party shall make all reasonable and feasible efforts to perform this Agreement or to mitigate the effects of Force Majeure and the scope of liability exemption shall be limited to the part being delayed and impeded. Once the cause of such exemption has been rectified and remedied, both parties agree to make best endeavor to resume the performance of this Agreement.

**Article 13 Applicable Laws**

Performance, interpretation, dispute resolution and enforcement of this Agreement shall be governed by PRC laws.

**Article 14 Notice**

Any notice or other correspondence sent pursuant to this Agreement shall be written in Chinese and when the notice is delivered personally or sent by registered mail, postage prepaid, by a reputable commercial courier service or by facsimile transmission to the address of such party or parties set forth below, the notice shall be deemed to be effectively delivered.

- **Party A**: Beijing BlueCity Information & Technology Co., Ltd.
- **Address**: ***
- **Party B**: Beijing BlueCity Culture and Media Co., Ltd.
- **Address**: ***

**Article 15 Assignment of the Agreement**

15.1 Party B shall not directly or indirectly assign, re-license, lease, gift, pledge, entrust, distribute in kind of any, or dispose of its right and/or obligations under this Agreement in other forms to third parties without the prior written consent of Party A.

15.2 Party B hereby agrees that, Party A is entitled to assign or delegate all or part of its rights and/or obligations under this Agreement to third parties pursuant to the actual conditions in a proper time with prior notice to Party B, and prior written or oral confirmation from Party B is not required.

**Article 16 Miscellaneous**

16.1 Any written consents, suggestions, and appointments in relation to Party A as well as any other decisions that may have material impacts on Party B’s ordinary course of operation shall be made by Party A’s board of directors or its executive directors if a board is not established.
16.2 At any time after the execution of this Agreement, in the event that any promulgation or amendment of any PRC laws, regulations or rules, or any alteration on the application or interpretation of such laws, regulations or rules, the following arrangements shall be applied: (1) if the amendment or promulgation of such laws, regulations or rules are more preferential than relevant laws, regulations or rules in effect on the signing date to either party (without any material prejudice to the other party), both parties shall apply for the benefits and interests brought by such amendment or promulgation in a timely manner and shall make their best efforts for the approval of such application; or (2) if the amendment or promulgation aforesaid will bring material prejudice directly or indirectly to either party with respect to its economic benefits and interests, this Agreement shall be performed in accordance with the original provisions. Both parties shall make their best efforts to obtain exemptions on such amendment or promulgation in a lawful way. If the adverse effect on either party’s economic benefits and interests cannot be solved in accordance with this Agreement, and after a notice is delivered by the party affected by such amendment or promulgation to the other party, both parties shall consult in a timely manner and make all necessary amendments to this Agreement in order to maintain the economic benefits and interests owned by the influenced party under this Agreement.

16.3 In the event that any provisions of this Agreement are invalid or cannot be enforced due to conflict with laws, such provisions shall be deemed as invalid within the jurisdiction of the applicable laws, and shall not affect the effectiveness of other provisions of this Agreement.

16.4 Both parties are entitled to amend or supplement this Agreement in the form of written agreements at any time. Such amendments or supplements shall be a part of this Agreement after being executed by duly authorized representatives of both parties, and shall have equal effectiveness of this Agreement.

16.5 This Agreement is made in three (3) copies. Each copy of this Agreement shall be of equal validity and effect. Each party will hold one copy of this Agreement and the remaining one shall be used for the procedure of filling and registration.

[Intentionally left blank with signature page]
Party A: Beijing BlueCity Information & Technology Co., Ltd.
Authorized Representative: /s/ Beijing BlueCity Information & Technology Co., Ltd. (Seal)

Party B: Beijing BlueCity Culture and Media Co., Ltd.
Authorized Representative: /s/ Beijing BlueCity Culture and Media Co., Ltd. (Seal)
Exhibit 10.7

Exclusive Option Agreement

This Exclusive Option Agreement ("Agreement") is made and entered into and among following parties in Beijing on June 26, 2018:

Party A: Beijing BlueCity Information & Technology Co., Ltd.
Address: ***

Party B: MA Baoli ("Party B-1") and MA Changyou ("Party B-2")
Address: ***

(Party B-1 and Party B-2 hereinafter are collectively referred to as "Party B")

Party C: Beijing BlueCity Culture and Media Co., Ltd.
Address: ***

In this Agreement, Party A, Party B and Party C shall hereinafter be referred to each as a "Party," and collectively as the "Parties."

WHEREAS:

(1) Party C is a limited liability company duly incorporated under the PRC laws;
(2) Party B holds 100% of the equity interests in Party C in aggregate as of the execution date of this Agreement;
(3) The Exclusive Consulting and Services Agreement ("Service Agreement") was entered into by and between Party A and Party C on June 26, 2018.

THEREFORE, the Parties agree as follows after friendly negotiation:

Article 1 Grant of Right

1.1 To the extent permitted by the PRC laws and regulations and within the term of this Agreement, Party B hereby irrevocably grants Party A an exclusive and irrevocable right ("Equity Purchase Right") to purchase at any time Party C’s equity interests ("Target Equity Interests") in whole or in part from Party B by Party A or its designee, at the purchase price as set forth under the article 2 of this Agreement, in accordance with the procedures as determined by Party A in its full discretion.

Party C hereby agrees to Party B’s grant of Equity Purchase Right to Party A and Party B agrees to cooperate in accordance with this Agreement. “Person” means any natural person, company, joint venture, partnership, enterprise, trust or non-corporation organization under this section and this Agreement.

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1.2 To the extent permitted by the PRC laws and regulations and within the term of this Agreement, Party C hereby irrevocably grants Party A an exclusive and irrevocable right (“Asset Purchase Right”, collectively with the Equity Purchase right, the “Purchase Rights”) to purchase at any time Party C’s assets (“Target Assets”) in whole or in part from Party C by Party A or its designee, at the purchase price as set forth under the article 2 of this Agreement, in accordance with the procedures as determined by Party A in its full discretion. Party B hereby agrees to Party C’s grant of Asset Purchase Right to Party A and Party B agrees to cooperate in accordance with this Agreement.

1.3 Purchase Rights shall be exclusive to Party A, and except for the prior written consent from Party A, Party B shall not sell, offer to sell, transfer, gift, pledge or otherwise dispose of the Target Equity Interests in whole or in part to any other persons, or to authorize other persons to purchase the Target Equity Interests in whole or in part; Party C shall not sell, offer to sell, transfer, gift, pledge or otherwise dispose of the Target Assets in whole or in part to any other persons, or to authorize other persons to purchase the Target Assets in whole or in part;

1.4 It is the condition precedent to follow PRC laws and regulations for Party A to exercise its Equity Purchase Right. Party A shall issue a written notice to Party B (“Equity Purchase Notice”) when exercising the Equity Purchase Right, which shall include the following information: (a) Party A’s decision to exercise the Equity Purchase Right; (b) the Target Equity Interests; and (c) the purchase/transfer date of the Target Equity Interests.

1.5 It is the condition precedent to follow PRC laws and regulations for Party A to exercise its Asset Purchase Right. Party A shall issue a written notice to Party B (“Asset Purchase Notice”) when exercising the Asset Purchase Right, which shall include the following information: (a) Party A’s decision to exercise the Asset Purchase Right; (b) the Target Asset to be purchased by Party A from Party C; and (c) the purchase/transfer date of the Target Asset.

**Article 2 Purchase Price**

2.1 The purchase price of the equity interests shall be the lowest price permitted by the PRC laws and regulations. If PRC laws and regulations require the valuation of the equity interests upon Party A’s exercise of the Equity Purchase Right, all Parties shall negotiate and determine the equity interests purchase price in good faith and make necessary adjustments based on the valuation, so as to comply with the then applicable PRC laws and regulations.

2.2 The purchase price of the assets shall be the lowest price permitted by the PRC laws and regulations. If PRC laws and regulations require valuation of the assets upon Party A’s exercise of the Asset Purchase Right, all Parties shall negotiate and determine the assets purchase price in good faith and make necessary adjustments based on the valuation, so as to comply with the then applicable PRC laws and regulations.
Article 3 Confirmation of Other Shareholders

When Party A exercises its Purchase Rights, Party B-1 and Party B-2 shall approve such transaction and waive their right of first refusal respectively.

Article 4 Exercise of the Purchase Rights

4.1 Each of Party B and Party C hereby warrants to Party A respectively that, once Party A is allowed to directly hold Party C’s equity interests while Party C is allowed to continue the operation of its current business under the current PRC laws and regulations, Party A is entitled to exercise the Purchase Rights under this Agreement immediately.

4.2 For each exercise of the Equity Purchase Right by Party A:

4.2.1 Party B shall, at the request of Party A, promptly adopt shareholders’ resolutions to approve the transfer of equity interests to Party A and/or its designee(s), and/or issue a written statement certifying its consent to waive any right of first refusal under the PRC laws and regulations and agreements among relevant shareholders;

4.2.2 Party B shall execute an equity interests transfer agreement with Party A and/or its designee(s) in accordance with this Agreement and the Equity Purchase Notice;

4.2.3 The relevant Parties shall execute all other necessary agreements or documents, obtain all necessary government approvals and permits, and take all necessary actions to transfer the valid ownership of the Target Equity Interests to Party A and/or its designee(s), taking free of any security interests, and cause Party A and/or its designee(s) to become the registered owner(s) of the Target Equity Interests. “Security Interests” includes without limiting to, mortgages, pledges or third party’s rights or interests in other forms, any stock options, acquisition rights, right of first refusal, right of set-off, liens or other security arrangements under this section and this Agreement, and for the avoidance of doubt, the Security Interests shall exclude any security interest under this Agreement and Party B’s Equity Interests Pledge Agreement. “Party B’s Equity Interests Pledge Agreement” means the Equity Interests Pledge Agreement entered into by and among Party A, Party B and Party C on June 26, 2018 (“Equity Pledge Agreement”), under this section and this Agreement. According to the Equity Pledge Agreement, Party B shall pledge all of its equity interests in Party C to Party A, in order to guarantee Party C’s performance of its obligations under the Service Agreement;

4.2.4 Party B and Party C shall take all necessary actions to ensure that the transfer of Target Equity Interests is undisturbed in substance or in procedure. Neither Party B nor Party C shall impose any impediments or restrictions on the transfer of the Target Assets unless otherwise specified herein;

4.2.5 Party B shall procure Party C to adopt shareholders’ resolutions to approve the equity interests transfer by exercising the Equity Purchase Right and the amendment of the articles of association of Party C;
4.2.6 Party B shall, together with Party A and/or Party A’s designee(s), and all of the then other shareholders of Party C, procure and assist Party C to make registration filings to reflect the change with the relevant registration authorities; and

4.2.7 Party B shall handle other necessary matters to accomplish the Equity Purchase Right.

4.3 For each exercise of the Asset Purchase Right by Party A:

4.3.1 Party C shall, at the request of Party A, promptly adopt shareholders’ resolutions to approve the transfer of its assets to Party A and/or its designee(s); and Party B shall, at the request of Party A, vote for such transfer of assets to Party A and/or its designee(s) in Party C’s internal decision procedures;

4.3.2 Party C shall enter into an asset transfer agreement with Party A and/or its designee(s) in accordance with this Agreement and the Asset Purchase Notice;

4.3.3 The relevant Parties shall execute all other necessary agreements or documents, obtain all necessary government licenses and permits, and take all necessary actions to transfer valid ownership of the Target Assets to Party A and/or its designee(s), taking free of any Security Interests, and cause Party A and/or its designee(s) to become the registered owner(s) of the Target Assets (if necessary); and

4.3.4 Party B and Party C shall take all necessary actions to ensure the transfer of Target Assets undisturbed in substance or in procedure. Neither Party B nor Party C shall impose any impediments or restrictions on the transfer of the Target Assets unless otherwise specified herein.

4.4 Payment of purchase price. Party A and/or its designee(s) shall pay the purchase price of the equity interests and/or assets to Party B or Party C in a manner as set forth under this section 1.3. After withholding the necessary taxes on the equity and/or assets purchase price in accordance with the PRC laws and regulations, Party A and/or the its designee(s) shall pay the equity and/or assets purchase price to the account designated by Party B and/or Party C within seven (7) business days from the date on which the Target Equity Interests and/or Assets are formally transferred to Party A and/or its designee(s). Party B and/or Party C hereby agree that, subject to then applicable PRC laws, regulations and policies, the equity and/or assets purchase price paid by Party A and/or its designee(s) to Party B and/or Party C shall be returned by Party B and/or Party C to Party A and/or its designee(s) in a lawful manner.

Article 5 Covenants Relating to the Equity Interests and Assets

5.1 Party B hereby covenants that:

5.1.1 Without the prior written consent of Party A, Party B shall not sell, transfer, pledge or otherwise dispose of in any manner any legal or beneficial interests in the equity interests after execution of this Agreement, or allow the encumbrance thereon of any other security interests, except for the security interest placed in accordance with this Agreement and the pledge created under the Equity Pledge Agreement;
5.1.2 Without the prior written consent of Party A, Party B shall ensure the shareholders’ meeting of Party C not to and shall procure the board of directors or the executive directors (if no board of directors) of Party C not to approve any sale, transfer, pledge or other dispositions of any legal or beneficial interests in the equity interests in Party C held by Party B, or allow the encumbrance thereon of any other security interests, except for the security interest placed in accordance with this Agreement and the pledge created under the Equity Pledge Agreement;

5.1.3 Without the prior written consent of Party A, Party B shall ensure the shareholders’ meeting of Party C not to and shall procure the board of directors or the executive director (if no board of directors) of Party C not to approve any merger or consolidation of Party C with any Persons, or any acquisition of or investment in any other Persons;

5.1.4 Party B shall immediately inform Party A of any actual or potential litigations, arbitrations or administrative proceedings relating to the equity interests in Party C held by Party B;

5.1.5 Party B shall ensure the shareholders’ meeting of Party C to and shall procure the board of directors and executive director (if no board of directors) of Party C to approve the transfer of Target Equity Interests and/or Target Assets herein and take other measures at the request of Party A;

5.1.6 For the purpose of maintaining Party B’s ownership in Party C, Party B shall execute all necessary or appropriate documents, take all necessary or appropriate actions, file all necessary or appropriate complaints, and raise necessary or appropriate defenses against all claims;

5.1.7 Upon the request of Party A, Party B shall promptly and unconditionally transfer its equity interests to Party A and/or its designee(s) at any time;

5.1.8 Party B shall strictly comply with all provisions of this Agreement and other agreements jointly or separately executed by Party B and Party C with Party A, earnestly perform the obligations thereunder, and not to take, or omit to take, any actions which may sufficiently affect the validity and enforceability of such agreements. Where Party B has any remaining rights with respect to the equity interests subject to this Agreement hereunder or under Equity Pledge Agreement executed by the Parties or the Power of Attorney to Party A, Party B shall not exercise such rights unless with the written instructions from Party A; and

5.1.9 At the request of Party A, Party B shall appoint the Persons designated by Party A as directors and/or executive directors of Party C, and procure the appointment of Persons designated by the Party A to serve as the general manager, chief financial officer and other senior managements of Party C;
5.1.10 Without the prior written consent of Party A, Party B shall notify Party A of any dividends, bonuses or distributions received from Party C within three (3) business days and immediately transfer such benefits at nil consideration to Party A.

5.2 Party C hereby covenants that:

5.2.1 Without the prior written consent of Party A, Party C shall not in any manner supplement, amend or modify its articles of association, increase or decrease its registered capital or change its structure of registered capital in other manners;

5.2.2 Party C shall maintain its valid existence, operate its business and manage its corporate matters prudently and effectively, in accordance with good business standards and practices;

5.2.3 Without the prior written consent of Party A, Party C shall not sell, transfer, pledge or dispose of in any manner any equity interests, assets or legal or beneficial interest in the business or revenues of Party C and its subsidiaries (unless required by daily business operation) or allow the encumbrance thereon of any security interests;

5.2.4 Without the prior written consent of Party A, Party C shall not incur, inherit, guarantee or allow any indebtedness, except for (a) debts incurred legally in the ordinary course of business other than through loans, and (b) debts disclosed to Party A for which Party A’s written consent has been obtained;

5.2.5 Party C shall operate all of its business continuously in the ordinary course of business in order to maintain equity and the asset value of Party C and its subsidiaries, and refrain from any action or omission which may affects Party C’s operating status and equity and asset value;

5.2.6 Without the prior written consent of Party A, Party C and its subsidiaries shall not enter into any material agreement (including but not limited to, loan agreements, external security agreements, asset disposal agreements or any agreements that may place Party C under debt or substantial adverse effects), other than those entered in the ordinary course of business (for purpose of this section, an agreement with a value exceeding RMB500,000 shall be deemed as a material agreement);

5.2.7 Without the prior written consent of Party A, Party C and its subsidiaries shall not provide any loan or credit to any Person;

5.2.8 At the request of Party A, Party C shall provide Party A with all operating and financial materials of Party C and its subsidiaries;

5.2.9 If probable, Party C shall purchase from and maintain insurance with insurance companies acceptable to Party A, at an amount and type of insurance coverage typical for companies that in the same region operate the similar business and owning similar properties or assets as Party C;
5.2.10 Without the prior written consent of Party A, Party C and its subsidiaries shall not merge or consolidate with any Person, or acquire or invest in any Person;

5.2.11 Party C shall immediately notify Party A of any actual or potential litigations, arbitrations or administrative proceedings in relation to equity interests, assets, business and revenue of Party C and its subsidiaries;

5.2.12 For the propose of maintaining the ownership by Party C of all of its and its subsidiaries’ assets, Party C shall execute all necessary or appropriate documents, take all necessary or appropriate actions, file all necessary or appropriate complaints, and raise necessary or appropriate defenses against all claims;

5.2.13 Without the prior written consent of Party A, Party C shall not distribute dividends, bonuses or any assets to its shareholders, and if Party B receives any aforementioned interests, Party B shall inform Party A within three (3) business days and transfer relevant benefits at nil consideration to Party A; and

5.2.14 At the request of Party A, Party C shall appoint Persons designated by Party A as its directors and/or executive directors, general manager, chief financial officer and other senior managements.

Article 6 Representations and Warranties

Party B and Party C hereby represent and warrant to Party A, from the effective date of this Agreement to the date when all equity interests in Party C are completely transferred to Party A, that:

6.1 Party B lawfully holds equity interests in Party C.

6.2 Party B has strictly complied with all obligations set forth in the articles of associations of Party C. There is no circumstance that may affect Party B’s legal status as a shareholder of Party C or Party A’s exercise of the Purchase Rights under this Agreement.

6.3 Except for equity pledges agreed by Party A, the equity interests in Party C held by Party B are free of any form of security or seizure, any disputes, litigations, arbitrations, or other forms of administrative or judicial compulsory measures, or claims of which such equity interests are subject to.

6.4 Party B has disclosed to Party A all materials or information which may have substantial adverse effects on Party B’s ability to perform its obligations under this Agreement, or Party A’s willingness to enter into this Agreement.

6.5 Party B and Party C have the authority and capacity to execute and deliver this Agreement and any equity transfer agreements and/or asset transfer agreements to which they are a party and under which Target Equity Interests and Target Assets are transferred (“Transfer Agreement”), and to perform their obligations under this Agreement and any Transfer Agreement. Once this Agreement and the Transfer Agreements to which they are a party are executed, these agreements will constitute their legal, valid and binding obligations and shall be enforceable against them in accordance with the provisions thereof.
The execution and delivery of this Agreement or any Transfer Agreement or the performance of obligations under this Agreement or any Transfer Agreement shall not: (a) be inconsistent with the articles of association or other organizational documents of Party B and Party C; (b) cause the violation of any agreements or instruments to which they are a party or which are binding on them, or constitute any breach under any agreements or instruments to which they are a party or which are binding on them; (c) cause any violation of any condition for the granting and/or continued effectiveness of any licenses or permits issued to either of them; or (d) cause the suspension or revocation of or imposition of additional conditions to any licenses or permits issued to either of them;.

Party B hereby undertakes to Party A that it has made all appropriate arrangements and executed all necessary documents to ensure that upon the death, incapacity, bankruptcy, divorce or any other circumstances that may affect the fulfillment of the obligations under this Agreement, none of its successor, guardian, creditor, spouse or any other person who may be entitled to assume rights and interests in its equity interests will be able to affect or hinder the performance of this Agreement; and, those who acquires equity interests or related rights thereafter shall be deemed to be a signatory to this Agreement and shall inherit/assume all rights and obligations of Party B under this Agreement.

If Party C or its subsidiaries are dissolved or liquidated as requested by PRC laws, Party A shall be entitled to appoint a liquidator to manage the assets of Party C or its affiliates to the extent permitted by the PRC laws, and Party C or its subsidiary shall, to the extent permitted by the PRC laws and regulations, sell all of the assets to Party A or other qualified persons designated by Party A at the minimum price permitted by the PRC laws. Party C or its subsidiaries shall, to the extent permitted by the then applicable PRC laws and regulations in effect, waive any payment obligations arising therefrom of Party A or other qualified persons designated by Party A; and any profit derived from any such transactions shall be paid to Party A or any qualified person designated by Party A as a part of the service fees under the Service Agreement, to the extent permitted by the then applicable PRC laws and regulations in effect.

Party B shall not execute any documents or make relevant commitments in conflict of the interests with any agreement executed with Party C or Party A and its designated Person; and Party B shall not, by any action or omission of action, cause a conflict of interest among Party B and Party A and its shareholders. In any case of such conflict of interest (Party A may determine the occurrence of such conflict of interest in its full discretion), Party B shall take measures to eliminate such conflicts as soon as practicable with Party A or its designated person(s)’ prior consents. If Party B refuses to take actions to eliminate conflict of interests, Party A is entitled to exercise the Purchase Rights under this Agreement.

Without the written consent of Party A, Party B shall not directly or indirectly participate in or engage in business that could compete with or is likely to compete with the business of Party C and its subsidiaries, or be employed to operate relevant entities or hold the rights and assets of such entities whose business competes with or is likely to compete with the business of Party C and its subsidiaries. Party A shall have the final decision right to determine whether the above-mentioned circumstances exist or may exist.
Article 7 Further Covenants by Party B and Party C

Party B and Party C hereby covenant to Party A that:

7.1 During the term of this Agreement, Party B and Party C shall take all necessary measures, to ensure that Party C can obtain all operational licenses on time and keep all operational licenses valid at all times;

7.2 During the term of this Agreement, without the prior written consent of Party A,

7.2.1 Party B shall not transfer or otherwise dispose of any equity interests in Party C or create any security interest or other third-party rights thereon, except for security interest under this Agreement and the pledge create in accordance with the Equity Pledge Agreement;

7.2.2 Party C has a good and merchantable title to all of its assets. Party C has not placed any security interest on the aforementioned assets;

7.2.3 Party B shall not approve the increase or decrease in Party C’s registered capital, or the increase or decrease of existing shareholders.

7.2.4 Party B shall not dispose of or procure the management of Party C to dispose of any assets of Party C (other than in the ordinary course of business);

7.2.5 Party B shall not terminate or procure the management of Party C to terminate any material agreements (the definition of material agreement shall be determined by Party A then) entered into by Party C or enter into any other agreements in conflict with such existing material agreements;

7.2.6 Party B shall not appoint or dismiss any executive directors or members of the board of directors (if any), supervisors or other management members of Party C who shall be appointed and dismissed by the existing shareholders;

7.2.7 Party C have no outstanding debts, except for (a) legal debts incurred in the ordinary or daily course of business; and (b) debts disclosed to Party A for which Party A's written consent has been obtained.;

7.2.8 Unless otherwise provided by laws, without consent of Party A, Party B shall not cause Party C to declare distributions or actually effect distribution of any distributable profits, bonuses, interests or dividends;

7.2.9 Unless otherwise compulsorily provided by laws, Party B shall not approve the amendment of the articles of associations of Party C;

7.2.10 The Parties agree to promptly execute documents that are reasonably required for or are conducive to the implementation of the provisions and purposes of this Agreement and take further actions that are reasonably required for or are conducive to the implementation of the provisions and purposes of this Agreement.
Article 8 Confidentiality

Without the prior consent by Parties, any Party shall keep everything herein confidential and shall not disclose or comment on anything herein to any other Persons, except for:

1. any disclosure made in accordance with relevant laws or rules of any stock exchange;
2. any information that enters the public domain not due to the default of the disclosing party;
3. any disclosure made to shareholders, accountants, financial consultants, legal consultants or other professional consultants;
4. any disclosure made to potential buyers of equity or assets, other investors, debt or equity providers, provided that the recipient should have made corresponding confidential commitments (Party A's consent shall be obtained if the transferee is not Party A).

Article 9 Default

9.1 The following events shall constitute an event of default by Party B:

9.1.1 Party B violates any provisions herein, or any representations or warranties made by Party B herein is materially inaccurate, false or incorrect;
9.1.2 Without the prior written consent of Party A, Party B assigns, otherwise transfers or pledges any rights herein.

9.2 Upon an event of default or other events occur, in addition to the remedial measures under laws, Party A may also take following measures:

9.2.1 To the extent permitted by then PRC laws, Party A may require Party B to immediately transfer all or any part of its equity interests in Party C to Party A or any third party designated by Party A at the exercise price;
9.2.2 Immediately reclaim the loans under the loan agreements executed with Party B;
9.2.3 Request Party B to indemnify all direct and indirect losses, including but not limited to, fruits arising from the equity interests in Party C, all legal fees, travel expenses, investigation fees and other expenses paid for enforcement and seeking remedies.

Article 10 Termination

10.1 During the term of this Agreement, Party A may, at its sole discretion, terminate this Agreement unconditionally at any time by giving a written notice to Party B, and shall not assume any liability.
During the term of this Agreement, Party B is not entitled to unilaterally terminate this Agreement at any time.

Article 11 Governing Laws and Dispute Resolution

11.1 The execution, effectiveness, interpretation, performance and dispute resolution of this Agreement shall be governed by the PRC laws.

11.2 Any dispute in connection with this Agreement or arising out of the performance of this Agreement, shall be resolved in first instance through friendly negotiations among the Parties. If the dispute is not resolved through negotiations within 60 days after the delivery of a written notice by one party in relation to the dispute, any Party can submit the dispute to China International Economic and Trade Arbitration Commission for arbitration in Beijing. The arbitral awards shall be final and binding on all Parties.

11.3 During the proceeding of arbitration, except for the matters under dispute, the Parties shall continue their performance of obligations under this Agreement. The arbitrators shall have the right to make appropriate awards based on the actual circumstances and give Party A appropriate legal remedies, including restrictions on the business operations of Party B and/or Party C, restrictions, prohibitions or enforced transfer or disposition of the equity interests or assets of Party B and/or Party C, and liquidation of Party B and/or Party C.

11.4 Upon the request of either Party to the dispute, the court of competent jurisdiction can grant temporary reliefs, such as seizing or freezing the assets of the defaulting party based on judicial decisions or verdicts. After the arbitral award takes effect, any Party is entitled to apply to a court of competent jurisdiction for enforcement of such awards.

Article 12 Miscellaneous

12.1 All the schedules to this Agreement constitute integral parts of this Agreement and have equal legal effect as the body text of this Agreement.

12.2 Parties hereto may enter into supplement agreements to settle matters not mentioned herein. Any supplement agreement reached in writing shall constitute an integral part of this Agreement.

12.3 Any party hereto shall not alter this agreement without authorization, and any change to this Agreement shall be agreed upon by the Parties through negotiation and in the form of written contract or agreement.

12.4 Party A's failure or delay in exercising any rights or remedies under this Agreement shall not be construed as a waiver of such rights or remedies by Party A, nor shall it affect Party A's exercise of such rights or remedies at any time in accordance with the provisions of this Agreement and/or laws and regulations.

12.5 The invalidity of any one or more provisions of this Agreement shall not affect validity of the remaining provisions of this Agreement.
12.6 Party A is entitled to transfer all or part of rights herein to a third party without consent of Party B, however, Party B shall not transfer any rights and obligations herein without the consent of Party A. Party A and transferee shall obey relevant obligations after the transfer of rights herein.

12.7 Each party shall bear any and all transfer and registration taxes, expenses and fees incurred thereby or levied thereon in accordance with the PRC laws and regulations in connection with the preparation and execution of this Agreement and Transfer Agreements, as well as the consummation of the transactions contemplated under this Agreement and Transfer Agreements.

Article 13 Text and Effectiveness

13.1 This Agreement is made in six (6) copies. Each Party of this Agreement shall hold one (1) copy, and the other two (2) copies shall be retained by Party C, each of which shall have the same legal effect.

13.2 This Agreement shall become effective upon the execution of all Parties hereto ("Effective Date"), the effective term shall terminate when all equity interests held by Party B in Party C and assets of Party C have been transferred to Party A and/or any other person designated by Party A pursuant to this Agreement legally.

13.3 This Agreement shall become effective upon execution by the Parties of this Agreement or their authorized representatives. Notwithstanding anything to the contrary set forth in this Agreement, any party hereto shall not request for the termination, the invalidation or the early termination of this Agreement on the ground that this Agreement or any terms hereof are unconscionable, or violate the principle of fairness, industry practice or market price, or on other similar grounds.
Party A: Beijing BlueCity Information & Technology Co., Ltd.
Authorized Representative: /s/ Beijing BlueCity Information & Technology Co., Ltd. (seal)

Party B-1: MA Baoli Signature: /s/ MA Baoli

Party B-2: MA Changyou Signature: /s/ MA Changyou

Party C: Beijing BlueCity Culture and Media Co., Ltd.
Authorized Representative: /s/ Beijing BlueCity Culture and Media Co., Ltd. (seal)
I, CHEN Shuying (PRC ID Number: ***)**, the legal spouse of MA Changyou (PRC ID Number: ***), hereby unconditionally and irrevocably agree that, the equity interests in Beijing BlueCity Culture and Media Co., Ltd. (“BlueCity”) held and registered in the name of my spouse, Ma Changyou (“Target Equity Interests”), shall be disposed of in accordance with the arrangement under a series of contractual agreements (including, the Exclusive Consulting and Services Agreement, the Exclusive Option Agreement, the Equity Interest Pledge Agreement and the Powers of Attorney) (“Contractual Agreement”) executed by my spouse on June 26, 2018.

I hereby further undertake to not take any action for purpose of arising conflicts with the Contractual Agreement, including claiming the Target Equity Interests to be the common property of me and my spouse to influence or to impede my spouse’s performance of the obligations under the Contractual Agreement. I hereby unconditionally and irrevocably waive any rights or interests in relation to the Target Equity Interests that may be granted to I under any applicable laws.

I confirm and agree that, the equity interests owned by my spouse under the Contractual Agreement (“Equity Interests Owned by the Spouse”) shall be attribute to my spouse in any condition, and my spouse can pledge, sell or dispose of the Equity Interests Owned by the Spouse pursuant to such agreements without my consent. I further confirm that, my spouse can perform the Contractual Arrangements and further amend or terminate the Contractual Arrangements without the authorization or consent from me, and I have never and will not be involved in the operation or management of BlueCity. I have no right to claim any rights in relation to the Equity Interests Owned by the Spouse in any case, including but not limited to, voting right, disposal right and any economic benefits generated (if any). I undertake to execute all necessary documents, and to take all necessary actions to ensure the due performance of the Contractual Agreement (as amended from time to time.) I agree and undertake that, if I obtain any equity interests in BlueCity owned by my spouse for any reason, I will be bound by the Contractual Agreements (as amended from time to time,) and comply with the obligations hereto as the shareholder of BlueCity, and for this purpose, upon the request from the holders of the rights under the Contractual Agreement, I shall execute a series of written documents in the same formats and contents as the Contractual Agreement (as amended from time to time.)

I further confirm, covenant and undertake that, in case of death or incapacity of my spouse, divorce or any other circumstance that may impact the exercise of the shareholder’s rights in BlueCity by my spouse, me and any of my successors, guardians, creditors and any other persons that are entitled to claim benefits or interests to the equity interests in BlueCity held by my spouse will not take any actions that will influence or impede the performance of obligations under the Contractual Agreements by my spouse.

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Signature: /s/ CHEN Shuying

Date: June 26, 2018