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## RISK FACTORS

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*An investment in our Class B Shares involves significant risks. You should carefully consider all of the information in this document, including the risks and uncertainties described below, before making an investment in our Class B Shares. The following is a description of what we consider to be our material risks. Any of the following risks could have a material adverse effect on our business, financial condition and results of operations. In any such case, the market price of our Offer Shares could decline, and you may lose all or part of your investment.*

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

### RISKS RELATING TO OUR INDUSTRY

**If we fail to continuously develop and innovate our products and services to meet customers’ evolving needs of functionality, performance, reliability, design and security, we may not be able to retain existing customers, attract new customers or increase sales.**

Our business growth relies on our ability to identify and anticipate the needs of our customers and develop products and services that meet their demands. See “Business — Our Software Platforms.” Our ability to retain existing customers, attract new customers, and increase sales to both new and existing customers will depend on a number of factors. In addition to the effectiveness of our sales and marketing efforts, it also depends, to a large extent, on our ability to provide products and services that meet our customers’ requirements, including more advanced products and services that address the needs of our customers at competitive prices, the strength of our technology, and our ability to continue improving and enhancing the functionality, performance, reliability, design, security and adaptability of our products and services.

The industries in which we operate are characterized by constant changes, including rapid technological evolution, frequent introductions of new products and services, continual shifts in customer demands and constant emergence of new industry standards and practices. Our success will depend, in part, on our ability to respond to these changes in a cost-effective and timely manner. We need to develop expertise across different industry sectors, adapt our products for different industry verticals and constantly anticipate the emergence of new technologies and assess their market acceptance. We also need to invest significant resources, including financial resources, in research and development to lead technological advances in order to keep our products and services innovative and competitive in the market.

To the extent we are not able to provide products that meet our customers’ requirement, or we are not able to improve and enhance the functionality, performance, reliability, design, security, adaptability and scalability of our products and services in a manner that responds to our customers’ evolving needs, our existing customers may not spend more on our products and services, and we may not be able to attract new customers, under which circumstances our business, financial condition, results of operations, and prospects may be materially and adversely affected.

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

The industries in which we operate are highly competitive. We primarily compete with other companies that focus on developing and commercializing AI technologies. With respect to each industry vertical that we have entered into, we also compete against existing players with no specific AI capabilities in such vertical as they may develop and improve their own AI algorithms for their comprehensive product suites. Our competitors may have longer corporate operating history, or have or in the future gain more financial resources and sophisticated technological capabilities and broader customer base and relationships than us. In addition, as we expand into areas such as cloud services, the basis for competition will be different and we are likely to face additional competitors, including in-house AI technology development of our customers and prospective customers. As a result, our competitors may be able to respond more quickly and effectively to new or changing opportunities, technologies, regulatory requirements or user demand than us.

We may also face competition from new entrants who may offer lower prices or new technologies and products, and thus increase the level of competition in the future. Increased competition could result in lower sales, price reductions, reduced margins or loss of market share. Further, we may be required to make substantial additional investments in research, development, marketing and sales, recruiting and retaining top AI scientists and innovative talents, and acquiring technologies complementary to, or necessary for, our current and future products in order to respond to such competitive threats, and we cannot assure you that such measures will be effective. If we are unable to compete successfully, or if competing successfully requires us to take costly actions in response to the actions of our competitors, our business, financial condition and results of operations may be materially and adversely affected.

### RISKS RELATING TO OUR BUSINESS

**We have incurred significant operating losses and net losses during the Track Record Period, and may not be able to achieve or subsequently maintain profitability in the future, and we had negative equity or net deficit during the Track Record Period.**

Since our inception, we have incurred operating losses and net losses. In 2018, 2019, 2020 and the six months ended June 30, 2021, we had operating losses for the year/period of RMB338.8 million, RMB1,606.5 million, RMB1,811.7 million and RMB2,150.7 million, respectively. We had net losses for the year/period of RMB3,432.7 million, RMB4,967.7 million, RMB12,158.3 million and RMB3,712.9 million, respectively, and we had adjusted net loss (non-IFRS measure) for the year/period of RMB150.0 million, RMB1,155.2 million, RMB707.7 million and RMB578.3 million, respectively. During the Track Record Period, we incurred net losses primarily due to (i) fair value losses of preferred shares and other financial liabilities; (ii) increased research and development expenses, as we continued to expand our research and development team; and (iii) share-based compensation expenses to our employees. We expect to record significantly increased net losses in 2021 and may continue to incur net losses in the short term, as we are in the stage of expanding our business and operations in the rapidly growing AI software market, and are

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continuously investing in research and development, especially our universal AI infrastructure. We may not be able to achieve or subsequently maintain profitability in the future. We believe that our future revenue growth will depend on, among other factors, our ability to develop new technologies, enhance customer experience, establish effective commercialization strategies, compete effectively and successfully and develop new products and services. Accordingly, you should not rely on the revenues of any prior period as an indication of our future performance. We also expect our costs and expenses to increase in future periods as we continue to expand our business and operations, and invest in research and development, our universal AI infrastructure and geographic expansion. In addition, we expect to incur substantial costs and expenses as a result of being a public company. If we are unable to generate adequate revenues and manage our expenses, we may continue to incur significant losses in the future and may not be able to achieve or subsequently maintain profitability.

Moreover, we had negative equity or total deficit of RMB5,364.4 million, RMB10,654.3 million, RMB20,932.6 million and RMB22,961.0 million as of December 31, 2018, 2019 and 2020 and June 30, 2021, respectively, primarily due to our preferred share liabilities. We expect to achieve a net assets position upon Listing, as the convertible redeemable preferred shares will be re-designated from financial liabilities to equity as a result of the automatic conversion into ordinary shares. Our net deficit position exposes us to liquidity risk. Our future liquidity, payment of trade and other payables, capital expenditure plans and repayment of outstanding debt obligations as and when they become due will primarily depend on our ability to maintain adequate cash generated from operating activities and adequate external financing. We may have a net deficit position in the future, which may limit our working capital for the purpose of operations or capital for our expansion plans and materially and adversely affect our business, financial condition and results of operations.

**Any flaws or misuse of AI technologies, whether actual or perceived, intended or inadvertent, committed by us or by other third parties, could have a material adverse effect on our reputation, business, financial condition, results of operations and prospects.**

AI technologies are at early stages of development and continue to evolve. Similar to many innovations, AI technologies present risks and challenges, such as potential misuse by third parties for inappropriate purposes or biased applications which breach public confidence or violate applicable laws and regulations in China and other jurisdictions or litigation or other proceedings initiated by certain individuals claiming for infringement of legitimate rights such as privacy or personality rights. Such misuse could affect customer perception, public opinions, views of policymakers and regulators and result in decreased adoption of AI technologies. For example, the European Parliament recently called for a ban on police use of facial recognition technology in public places. Though we do not have a substantial presence in the European Union, and it is uncertain whether the proposed ban will take effect eventually, adverse perception of AI technologies could have a material adverse effect on our reputation, business, financial condition, results of operations and prospects.

We have adopted a series of measures to prevent the misuse of our technologies, including implementation of relevant policies and management system in relation to data privacy and personal information protection. For further information, see “Business — Responsible and Sustainable AI” and “Data Privacy and Personal Information Protection.” During the Track Record Period and up to the Latest Practicable Date, there had been no material litigation or other proceedings arising from or in relation to any infringement of relevant legitimate rights against us. However, we cannot assure

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you that the measures we take to prevent the misuse of our technologies and data protection will always be effective, or that our technologies will not be misused or applied in a way that is inconsistent with our intention or public expectation. Any inappropriate or abusive usage of AI technologies, whether actual or perceived, intended or inadvertent and by us or by third parties, may dissuade prospective customers from adopting AI products and services, impair the general acceptance of AI products and services by the society, attract negative publicity and adversely impact our reputation and violate applicable laws and regulations in China and other jurisdictions and subject us to legal or administrative proceedings, pressures from certain shareholders and/or other organizations and heightened scrutiny by the regulators. Each of the foregoing events may in turn materially and adversely affect our business, financial condition and results of operations.

As advised by our PRC Legal Advisor, according to the applicable PRC laws and regulations, in the event that the relevant individual claims personality rights and data privacy infringement against us arising from or in relation to the products we produced, the applicable PRC laws and regulations do not restrict such individual's rights to claim remedies on personality rights, and such relevant individual shall have the right to sue us for such infringement. Furthermore, should we fail to obtain the due authorization and consent from such individual evidencing his/her consent for us to process the relevant personal information, we may be subject to certain liabilities for the infringement of personality rights and data privacy, which could have a material adverse effect on our reputation, business, financial condition, results of operations and prospects.

In addition, flaws or deficiencies in AI technologies could undermine the accuracy and thoroughness of the decisions and analyzes made by the relevant products and services. For example, computer vision technologies may not be able to detect all intentional concealment or fraudulent activities. There can be no assurance that we will be able to detect and remedy such flaws or deficiencies in a timely manner, or at all. Any flaws or deficiencies in AI technologies and products and services, whether actual or perceived, could materially and adversely affect our business, reputation, results of operations and prospects.

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

In recent years, privacy and data protection has become an increasing regulatory focus of government authorities across the world. The PRC government has enacted a series of laws, regulations and governmental policies for the protection of personal data in the past few years. When conducting our business, we may need to process certain data of our customers and their end users. We are also subject to laws, regulations and governmental policies regarding data privacy and protection in multiple areas and jurisdictions where we have a business existence. Such regulatory requirements on data privacy are constantly evolving and can be subject to varying interpretations, or significant changes, resulting in uncertainties about the scope of our responsibilities in that regard. For example, on June 10, 2021, the Standing Committee of the National People's Congress (the "SCNPC") promulgated the PRC Data Security Law, which took effect in September 2021. The Data Security Law provides for a security review procedure for the data activities that may affect national security. On August 20, 2021, the SCNPC issued the Personal Information Protection Law, taking effect from November 1, 2021, which reiterates the circumstances under which a personal

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information processor could process personal information and the requirements for such circumstances. The Personal Information Protection Law clarifies the scope of application, the definition of personal information and sensitive personal information, the legal basis of personal information processing and the basic requirements of notice and consent. On July 10, 2021, the Cyberspace Administration of China published the Measures for Cybersecurity Review (Revised Draft for Comments), which further restates and expands the applicable scope of the cybersecurity review. Pursuant to the draft measures, critical information infrastructure operators that intend to purchase internet products and services and data processors (collectively, the “operators”) engaging in data processing activities that affect or may affect national security must be subject to the cybersecurity review. The draft measures further stipulate that if an operator possesses personal information of over one million users and intends for “foreign” listing (國外上市), it must be subject to the cybersecurity review. However, the draft measures provide no further explanation or interpretation for “foreign” listing (國外上市). As advised by our PRC Legal Advisor, such requirement for an operator possessing personal information of over one million users intending for “foreign” listing (國外上市) to apply for cybersecurity review under the draft measures is not applicable to us in the current form, primarily because (i) as of the date of the Prospectus, the Group has not received any notice or determination from applicable PRC governmental authorities identifying it as a critical information infrastructure operator, (ii) the exact scope of “data processor” under the draft measures remains unclear, (iii) the Group is applying for listing in Hong Kong, while Hong Kong does not fall within the scope of “foreign country” (國外). On November 14, 2021, the Cyberspace Administration of China published the Administration Regulations on Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》), which reiterates the circumstances under which data processors shall apply for cybersecurity review, including, among others, (i) the data processors who process personal information of at least one million users apply for “foreign” listing (國外上市); and (ii) the data processors’ listing in Hong Kong affects or may possibly affect national security. However, it provides no further explanation or interpretation as to how to determine what constitutes “affecting national security”, and there remain uncertainties whether we would be subject to the cybersecurity review for the Global Offering pursuant to such draft measures. As of the Latest Practicable Date, these above two draft measures have not been formally adopted. As of the date of the Prospectus, we have not received any investigation, notice, warning, or sanctions from applicable government authorities in relation to national security. The Group also confirms that, as of the date of the Prospectus, we have not been involved in any investigations on cybersecurity review made by the CAC on the national security basis or any other basis, and has not received any inquiry, notice, warning, or sanctions in such respect. In addition, the operative provisions and anticipated adoption or effective date may be subject to change with substantial uncertainty. We cannot predict the impact of these draft measures, if any, at this stage, and we will closely monitor and assess any development in the rule-making process. Therefore, it remains uncertain whether the proposed measures will be applicable to our business, the Global Offering, or whether the future regulatory changes would impose additional restrictions on companies like us. In light of the above uncertainties, as of the date of the Prospectus, we had not applied for such cybersecurity review. If the enacted version of these draft measures mandate clearance of cybersecurity review and other specific actions to be completed by companies like us for the Global Offering or our future capital raising activities, we may face uncertainties as to whether such clearance can be timely obtained, or at all. Failure to comply with the cybersecurity and data privacy requirements in a timely manner, or at all, may prevent us from using certain network products and services and subject us to government enforcement actions and investigations,

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finances, penalties, suspension of our non-compliant operations, and revoking relevant business permits or business licenses, among other sanctions. See “Regulatory Overview — Regulations on Cyber Security and Data Protection.” There are also news articles reporting that the PRC government may introduce data tax in the future. As a result, we may be required to upgrade our products and services to comply with such laws and regulations, which may have a material adverse effect on our business operations.

We have adopted various measures, including Board and management supervision and internal management system, to ensure compliance with privacy and data protection regulations. As confirmed by our PRC Legal Advisor, during the Track Record Period and up to the date of the Prospectus, we had not been subject to any material claims, investigations or legal proceedings settled, pending or threatened for any material noncompliance with or violations of applicable PRC laws and regulations with respect to privacy and personal data protection. See “Business — Data Privacy and Personal Information Protection.” However, the laws and regulations regarding privacy and data protection in China, as well as other countries, are generally complex and evolving, with uncertainty as to the interpretation and application thereof. As such, we cannot assure you that our privacy and data protection measures are, and will be, always considered sufficient under applicable laws and regulations. Additionally, the integrity of our privacy and data protection measures is also subject to system failure, interruption, inadequacy, security breaches or cyber-attacks. If we are unable to comply with the then applicable laws and regulations, or to address any data privacy and protection concerns, such actual or alleged failure could damage our reputation, deter existing and potential customers from using our products and services and could subject us to significant legal, financial and operational consequences.

**We have a limited operating history, which makes it difficult to evaluate our business and prospects, and our historical growth may not be indicative of our future performance.**

We commenced operations in 2014 and have experienced rapid growth. However, our historical growth may not be indicative of our future performance and we cannot assure you that this level of significant growth will be sustainable or achievable in the future. Our growth prospects should be considered in light of the risks and uncertainties that fast-growing companies with a limited operating history may encounter, including, among others, risks and uncertainties regarding our ability to:

- maintain and upgrade our universal AI infrastructure;
- upgrade our AI software platforms and develop new technologies;
- further commercialize our AI products and services;
- retain existing customers and attract new customers to purchase our products and services;
- expand into new industry verticals and launch new products and services;
- further expand into international markets;

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- increase brand awareness through marketing and promotional activities;
- successfully compete with other companies that are currently in, or may in the future enter, the industries and verticals we have entered;
- attract, retain and motivate talented employees, including research and development talents as well as staff with in-depth industry know-how;
- adapt to evolving regulatory environment; and
- defend ourselves against litigation, regulatory, intellectual property, privacy, data protection or other claims.

All of these endeavors involve risks and will require significant research and development expenses, operating expenses and capital expenditures and allocation of valuable management and employee resources. We cannot assure you that we will be able to effectively manage the expansion or growth of our operations and workforce or implement our business strategies effectively. If the markets for our products and services does not develop as we expect or if we fail to address the needs of this dynamic market, our business, results of operations and financial condition may be materially and adversely affected.

**If either the growth of AI technology commercialization or the usage of AI and other products and services in industry verticals we focus on does not meet expectation, or if the price or profit margin of our products and services decrease in the future, our business, growth and prospects may be significantly affected.**

As we aim to provide standardized AI products and services to more customers in different industries and verticals, we may face challenges brought by demands for highly customizable application software. Whether potential customers accept our products and services depends, to a large extent, on their level of awareness of our product and service offerings and the widespread use of similar products and services. We cannot assure you that the trend of adopting and utilizing such products and services by potential customers will continue in the future. In addition, with the continuous development of AI technology and commercialization of the relevant AI products and services, any potential future decrease in growth of the AI software market or the price and profit margin of our AI products and services could result in material and adverse change to our business, growth and prospects.

Market expansion for AI products and services in China depends on a number of factors, including the growth in the application of AI in enterprise services and city management, the prevalence of smart IoT devices, as well as the performance and perceived value associated with such products and services. If AI products and services do not achieve widespread acceptance, or there is a reduction in demand for such products or services caused by weakening economic conditions, decreases in corporate spending, technical challenges, data security or privacy concerns, governmental regulation, competing technologies and products or services or otherwise, our business, growth prospects and results of operations will be materially and adversely affected.

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**We had net cash flows used in operating activities during the Track Record Period. If we cannot improve our operating cash flows and if we fail to obtain sufficient capital on acceptable terms and on a continuous basis to fund our operations, our business, financial condition and prospects may be materially and adversely affected.**

We experienced significant cash outflows from operating activities during the Track Record Period. We had net cash flows used in operating activities of RMB749.7 million, RMB2,869.4 million, RMB1,228.8 million and RMB830.9 million in 2018, 2019, 2020 and the six months ended June 30, 2021, respectively, primarily due to our significant investments in our research and development efforts to enhance our products and services, and changes in working capital caused by increasing trade and other receivables as our business grows. We plan to continue to invest heavily in our research and development efforts, as well as our sales and marketing efforts, and incur significant capital expenditures. However, it typically takes a long period of time to realize returns on such investments, if at all. As such, we expect to continue to have net cash outflow from operating activities in the near future.

Our negative operating cash flows could adversely affect our operations by reducing the amount of cash available to meet the cash needs for operating our businesses and fund our investments in our business innovation and expansion. We have historically funded our cash requirements principally with capital contribution from shareholders and financing through the issuance of preferred shares in private placement transactions. If our future operating cash flows fails to improve to a level to sufficiently cover our overall cash needs, we will have to rely on external debt or equity financing, and we cannot assure you that we will be able to obtain external financing in amounts or on terms acceptable to us, if at all.

Our ability to obtain additional capital in the future, however, is subject to a number of uncertainties, including those relating to our future business development, financial condition and results of operations, general market conditions for financing activities by companies in our industry and macro-economic and other conditions in China and globally. If we cannot obtain sufficient capital to meet our capital needs, we may not be able to execute our growth strategies, and our business, financial condition and prospects may be materially and adversely affected.

**If our expansion into new verticals or attempt to develop new products and services is unsuccessful, our business, prospects and growth momentum may be materially and adversely affected.**

Leveraging our AI technologies as well as software and hardware integration capabilities, we are able to provide innovative AI-empowered products and services designed to address diversified needs of our customers across different verticals. We have a track record of successfully expanding into and becoming a leader in new verticals and developing new products and services. We cannot assure you, however, that we will be able to maintain this momentum in the future. Expanding offering categories into areas such as AI sensors and ISP chips, Metaverse offerings, autonomous driving products and cloud services involves new risks and challenges. Our lack of familiarity with new verticals may make it more difficult for us to keep pace with the evolving customer demands



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and preferences. In addition, there may be one or more existing market leaders in any vertical that we decide to expand into. Such companies may be able to compete more effectively than us by leveraging their experience in doing business in that market as well as their deeper industry insight and greater brand recognition among customers. We may be required to develop new supply-chain relationships and capabilities. We will need to comply with new laws and regulations applicable to these businesses. Expansion into any new vertical and development of new products and services may place significant strain on our management and resources and incur substantial R&D and other costs and expenses before generating any revenues, and failure to expand successfully could have a material adverse effect on our business and prospects.

**We are subject to the risks associated with international trade policies, geopolitics and trade protection measures, and our business, financial condition and results of operations could be adversely affected. One of our subsidiaries, Beijing SenseTime, was added to the U.S. Entity List by the BIS in October 2019, which restricts its ability to purchase or otherwise access certain goods, software and technology.**

Our operations may be negatively affected by any deterioration in the political and economic relations among countries and sanctions and export controls administered by the government authorities in the countries in which we operate, and other geopolitical challenges, including, but not limited to, economic and labor conditions, increased duties, taxes and other costs and political instability. Margins on sales of our products and services in certain countries and on sales of products that include components obtained from certain foreign suppliers could be materially and adversely affected by international trade regulations, including duties, tariffs and antidumping penalties. For example, the U.S. government imposed economic and trade sanctions directly or indirectly affecting China-based technology companies. Such laws and regulations are likely subject to frequent changes, and their interpretation and enforcement involves substantial uncertainties, which may be heightened by national security concerns or driven by political and/or other factors that are out of our control. Therefore such restrictions, and similar or more expansive restrictions that may be imposed by the U.S. or other jurisdictions in the future, may be difficult or costly to comply with and may materially and adversely affect our and our technology partners' abilities to acquire technologies, systems, devices or components that may be critical to our technology infrastructure, service offerings and business operations.

On October 9, 2019, one of our subsidiaries, Beijing SenseTime, was added to the entity list (the “**Entity List**”) administered by the U.S. Department of Commerce, Bureau of Industry and Security (“**BIS**”). The addition of this subsidiary to the Entity List (the “**Entity List Addition**”) restricts Beijing SenseTime’s ability to purchase or otherwise access goods, software and technology (collectively, “**items**”) that are subject to the Export Administration Regulations (the “**EAR**”) without a license from the BIS. Items subject to the EAR include, among other things, U.S.-origin items, as well as certain items of non-U.S.-origin that contain more than a *de minimis* portion of U.S.-origin controlled content, and non-U.S.-origin items that are the direct product of certain U.S.-origin controlled software or technology. For further information, see “Regulatory Overview — U.S. Export Control Laws and Regulations.”

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In order to address the EAR-related risks after the Entity List Addition, we have put in place a series of export control compliance measures for the entire Group, in abundance of caution. We have developed and implemented an export control compliance program, focused on screening of suppliers and customers, monitoring and review of items that are subject to the EAR and employee training. For further information, see “Business — U.S. Export Control Laws and Regulations.” However, there can be no assurance that our export control compliance measures or program could be strictly followed and implemented, or that the implementation of such export control compliance measures or program would be sufficient for us to address concerns under the EAR.

Our relationships with suppliers may evolve in the future, and there can be no assurance that we will maintain our access to all items that are necessary to our business. Furthermore, as technologies continue to advance, third parties may offer new technologies or products that could enhance our technology infrastructure or AI products and services. To the extent that such new technologies or products are subject to the EAR, Beijing SenseTime would not be able to access them if it remains on the Entity List by then. There can be no assurance that we would be able to identify alternative supply chain arrangements to access similar technologies or products of the same quality at similar cost, and we may encounter increased supplier scrutiny due to the Entity List Addition. As such, if our subsidiary remains on the Entity List on a prolonged basis, we may not be able to compete effectively in certain business lines, and our business, results of operations and financial condition could be materially and adversely affected.

If, in addition to Beijing SenseTime, other subsidiaries of our Group, or if the entire Group were to become targeted under sanctions and/or export control restrictions, this may also result in significant interruptions of our business, regulatory investigations and reputational harm to us.

### **We had a concentration of customers during the Track Record Period.**

For the years ended December 31, 2018, 2019, 2020 and the six months ended June 30, 2021, the percentage of our revenue attributable to our largest customer amounted to 8.7%, 7.7%, 11.9% and 22.9%, respectively, while the percentage of our revenue attributable our five largest customers for the years ended December 31, 2018, 2019, 2020 and the six months ended June 30, 2021 amounted to 28.4%, 26.3%, 31.4% and 59.3%, respectively.

We cannot assure you that there will not be any dispute between our major customers and us, or that we will be able to maintain business relationships with our existing customers. As a substantial amount of revenues were generated from a relatively small number of major customers during the Track Record Period, in the event that the existing major customers cease to engage our service, and we are unable to find new customers with similar attributable revenue within a reasonable period of time or at all, our business and profitability may be adversely affected. In addition, if any of such customers default or delay on their payment or settlement of our trade and other receivables, our liquidity, financial condition and results of operations may be adversely affected.

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**We are subject to credit risk related to delay in payment and defaults of customers, and we have incurred significant impairment losses in the past. Any significant delay in payment or default on our receivables could materially and adversely affect our liquidity, financial condition and results of operations.**

We are exposed to credit risk related to delay in payment and defaults of our various customers. As of December 31, 2018, 2019, 2020 and June 30, 2021, our trade receivables amounted to RMB1,331.6 million, RMB2,614.9 million, RMB3,748.4 million and RMB3,926.2 million, respectively, and our balance of provision for impairment of trade receivables amounted to RMB102.0 million, RMB211.6 million, RMB609.8 million and RMB784.8 million, respectively, while our other receivables amounted to RMB114.5 million, RMB2,248.4 million, RMB1,318.7 million and RMB880.2 million, respectively, and our balance of provision for impairment of other receivables amounted to RMB3.6 million, RMB164.3 million, RMB244.9 million and RMB259.3 million, respectively. We may not be able to collect all such trade and other receivables due to a variety of factors that are outside of our control, including long payment cycle of public sector customers, adverse operating conditions or financial situation of customers, and customers' inability to pay caused by their end users' delay in payment. Specifically, a significant portion of our revenue is derived from the public sector, which typically features a long payment cycle as required by their internal financial management and payment approval processes. The COVID-19 pandemic also negatively affected the budget and liquidity of our customers, resulting in the further increase in trade receivables. While revenue from Smart City significantly increased in 2019 both in absolute amount and as percentage of the total revenue, the collection of which was more heavily impacted by the COVID-19 pandemic in 2020, when city administrators focused on containing and combating the COVID-19 pandemic and diverted their budget accordingly. Our net trade receivables from Smart City, defined as the net trade receivables from customers whose primary source of revenue throughout the Track Record Period was from Smart City, were RMB491.2 million, RMB1,303.6 million, RMB2,113.9 million and RMB2,164.7 million, as of December 31, 2018, 2019, 2020, and June 30, 2021, respectively. Our net trade receivables from non-Smart City revenue streams, defined as the remaining net trade receivables, were RMB738.4 million, RMB1,099.7 million, RMB1,024.7 million and RMB976.7 million as of the same dates, respectively. If any of our customers experience financial difficulties in settling the trade and other receivables, or if the relationship between us and any of our customers is terminated or deteriorates, our corresponding trade and other receivables might be adversely affected in terms of recoverability.

As the increase of the amount of provisions made on our trade and other receivables are recorded as expenses on our results of operations, if we are not able to manage the credit risk associated with our trade and other receivables effectively, our results of operations may be materially and adversely affected. Furthermore, substantial defaults or delays by our customers could materially and adversely affect our cash flow and we may have to terminate our relationships with such customers.

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**We entered into strategic partnerships with certain business partners for joint research and development projects and other initiatives. The termination of any collaboration with our business partners may adversely affect our operations, revenue and profitability.**

We entered into strategic partnerships with certain business partners for joint research and development projects and other initiatives. There can be no assurance that our business partners will continue to collaborate with us on commercially reasonable terms or at all. We also cannot assure you that we will be able to establish new business partner relationships, or extend existing relationships with our business partners when our agreements with them expire. Furthermore, certain of our agreements with our business partners may be terminated at will prior to their specified termination dates, our business partners may alter the contract terms previously agreed between us, and our business partners are under no obligation to continue our collaboration. If we are unable to maintain our relationships with our key business partners, or any of our collaboration with our key business partners are terminated, our operations, revenue and profitability could be materially and adversely affected.

**We have been and intend to continue investing significantly in research and development, which may negatively impact our profitability and operating cash flow in the short-term and may not generate the results we expect to achieve.**

We have been investing heavily in our research and development efforts. Our research and development expenses increased from RMB848.7 million in 2018 to RMB1,916.0 million in 2019 and further increased to RMB2,453.9 million in 2020, representing 45.9%, 63.3% and 71.3% of our revenues in 2018, 2019 and 2020, respectively. Our research and development expenses increased from RMB1,219.5 million in the six months ended June 30, 2020 to RMB1,771.7 million in the same period of 2021, representing 141.6% and 107.3%, respectively, of our revenue during such periods. The industries in which we operate are subject to rapid technological changes and are evolving quickly in terms of technological innovation. We need to invest significant resources, including financial resources, in research and development to make technological advances in order to expand our offerings and make our products and services innovative and competitive in the market. As a result, we expect that our research and development expenses will continue to increase significantly.

However, our expenditures on research and development may not generate corresponding benefits. Development activities are inherently uncertain, and we may not be able to obtain and retain sufficient resources including qualified research and development personnel. Even if we succeed in our research and development efforts and generate the results we expect, we may still encounter practical difficulties in commercializing our development results. Given the fast pace with which the AI-related technology has been and will continue to be developed, we may not be able to timely upgrade our technologies in an efficient and cost-effective manner, or at all. New technologies in the AI industry could render our technologies, our technological infrastructure or products and services that we are developing or expect to develop in the future obsolete or unattractive, thereby limiting our ability to recover related product development costs, which could result in a decline in our revenues, profitability and market share.

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**We expect to incur significant capital expenditures for our business operations and expansion plans, which may adversely affect our short-term cash flow, liquidity and profitability.**

We expect to incur significant capital expenditures for investing in our AI infrastructure to enhance our AI model mass production capabilities, especially for our potential expansion into more industry verticals. We are in the process of building our Shanghai Lingang AIDC which is an integral part of our overall AI infrastructure and requires significant capital expenditure. Inherent risk exists for such significant capital expenditures as our investment may not succeed or generate the benefits that we expect, which could materially affect our profitability. Even if we achieve our goals for such investment, our short-term cash flow and liquidity may be adversely affected. While we intend to explore alternative arrangements to reduce the capital intensity of any future expansion, there is no assurance this will be successful.

We launched our AI infrastructure to enrich our offerings and to more efficiently serve our customers. However, our efforts to continue to improve and optimize our AI infrastructure may not succeed. The markets for certain of our offerings remain relatively new, and it is uncertain whether our efforts, and related investments, will ever result in significant revenue for us. Further, the introduction of significant technology changes and upgrades and introduction of new products and services may not be successful, and early-stage interest and adoption of such new products and services may not result in long-term success or significant revenue for us.

**The discontinuation of any of the government subsidies currently available to us could adversely affect our business, financial condition, results of operations and prospects.**

As with many other Chinese companies, we also benefit from government subsidies. We recognized government grants of RMB206.7 million, RMB248.9 million, RMB352.8 million and RMB117.4 million in other income in 2018, 2019, 2020, and the six months ended June 30, 2021, respectively. However, the timing, amount and conditions of government subsidies are within the sole discretion of the governmental authorities. In addition, there can be no assurance that we could fully satisfy these conditions, and it is possible that such governmental authorities may stop providing subsidies to us, or require us to repay part or all of the government subsidies we previously received. Any reduction, elimination, repayment or other negative trend in government subsidies resulting from our failure to meet such conditions could adversely affect our business, financial condition, results of operations and prospects.

**Our and our business partners' business operations have been adversely affected by the COVID-19 pandemic, and may in the future continue to be affected by the COVID-19 pandemic.**

On January 30, 2020, the International Health Regulations Emergency Committee of the World Health Organization declared the novel coronavirus disease 2019, or COVID-19, outbreak a public health emergency of international concern, and on March 11, 2020 the World Health Organization declared the global COVID-19 outbreak a pandemic. The COVID-19 virus continues to spread rapidly worldwide, including where our customers, suppliers and other business partners are located

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and where we have business operations. During the COVID-19 pandemic, government authorities around the world have ordered businesses to close and people to remain at home while imposing significant restrictions on traveling and social gatherings. Our customers and suppliers are also affected by COVID-19 related restrictions and closures. These measures have impacted, and may further impact, our workforce and operations, the operations of our customers and suppliers and other business partners. There continues to be significant uncertainties associated with the COVID-19 pandemic, including with respect to the ultimate spread of the virus, the severity of the disease, the duration of the outbreak, the possibility of successive waves of outbreaks, further actions that may be taken by governmental authorities around the world to contain the virus or to treat its impact, and the scope and length of the resulting economic downturn.

Furthermore, we may in the future experience additional disruptions that could materially and adversely impact our business operations, financial condition and results of operations, including but not limited to:

- decrease in number of customers;
- decrease in demand for our products and services;
- delays in the timing of purchasing decisions and sales and implementation cycles of our products and services by our existing or prospective customers;
- inefficiencies, delays and additional costs in our product development, sales, marketing and customer service efforts;
- service interruptions or impaired software performance due to failures of or delays in our software or resources in light of increasing usage of our cloud services;
- delays or failure to collect receivables from our customers impacted by the COVID-19 pandemic;
- negative impact on the operation of other third parties, including but not limited to suppliers, commercial banks, regulatory authorities and financial intermediaries, which may indirectly have a negative impact on our business and the capital market environment;
- the possibility that one or more clusters of COVID-19 cases could occur at one of our locations, affecting our employees or employees of our customers or other third parties on which we depend; and
- challenges to our systems supporting our remote workforce, due to the higher demand of such systems and the related software and hardware to support such remote working conditions.

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Failure to contain the spread of COVID-19 will adversely affect the general economic conditions. In addition, while the potential impact and duration of the COVID-19 pandemic on the global economy and our business in particular may be difficult to assess or predict, the pandemic has resulted in, and may continue to result in, significant disruption of global financial markets, which may reduce our ability to access capital or our customers' ability to pay us for past or future purchases, which could negatively affect our liquidity. There is no guarantee that the prolonged pandemic will not affect the demands for our products and services in the future. For example, the prolonged COVID-19 pandemic could result in city administrators focusing on containing and combating the pandemic which diverts their budget and affects their annual budget planning accordingly. Such potential decrease in demand for our products and services may adversely affect our business operations, financial performance and liquidity position. In addition, a recession or financial market correction resulting from the spread of COVID-19 could decrease overall technology spending, adversely affecting demand for our products and services, our business and the value of our Shares.

The global pandemic of COVID-19 continues to evolve rapidly, and we will continue to monitor the COVID-19 situation closely. The ultimate impact of the COVID-19 pandemic or a similar health epidemic is highly uncertain and subject to change. The extent of the impact of the COVID-19 pandemic on our operational and financial performance, including our ability to execute our business strategies and initiatives, will depend on future developments, including, but not limited to, the duration and spread of the pandemic, its severity, the actions to contain the disease or treat its impact, related restrictions on travel, and the duration, timing and severity of the impact on customer spending, including any recession resulting from the pandemic, all of which are uncertain and cannot be predicted. To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also heighten other risks described in this "Risk Factors" section.

**Our sales efforts involve considerable time and expense. If we are not successful in executing our strategy to expand our customer base or to increase sales to existing customers, our results of operations may suffer.**

Our results of operations may fluctuate, in part, because of the intensive nature of our sales efforts and the length and unpredictability of our sales cycle. As part of our sales efforts, we invest considerable time and expense evaluating the specific needs of our potential customers and educating these potential customers about the technical capabilities and value of our products and services. We sometimes provide our platforms to potential customers at no or low cost initially for evaluation purposes through short-term pilot deployments, and there is no guarantee that we will be able to retain these potential customers. The length of our sales cycle, from initial demonstration to sale of our products and services, varies substantially from customer to customer and could be long in some cases. In addition, our results of operations can also be affected by the tendency of some of our customers to wait until the end of a fiscal period in the hope of obtaining more favorable terms, which can also impede our ability to negotiate, execute and deliver upon these contracts in a timely manner, and affect our ability to provide accurate forecast of our financial results.

Our results of operations depend to a large extent on sales to government and enterprise customers, which make product purchasing decisions based in part or entirely on factors, or perceived factors, not directly related to the features of our products and services, including, among others, that customer's projections of business growth, uncertainty about economic conditions

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(including as a result of the COVID-19 pandemic), capital budgets, anticipated cost savings from the implementation of our platforms, potential preference for such customer's internally-developed software, perceptions about our business and platforms, more favorable terms offered by potential competitors, and previous technology investments. In addition, certain decision makers and other stakeholders within our potential customers tend to have vested interests in the continued use of internally developed or existing software, which may make it more difficult for us to sell our products and services to them. As a result of these and other factors, our sales efforts typically require an extensive effort throughout a customer's organization, a significant investment of human resources, expense and time, including by our senior management, and there can be no assurances that we will be successful in making a sale to a potential customer. If our sales efforts to a potential customer do not result in sufficient revenue to justify our investments, our business, financial condition, and results of operations could be adversely affected.

**Our international business is subject to various risks and uncertainties. If we are unable to manage the risks presented by our expansion in international markets, our financial results and future prospects may be adversely impacted.**

Our international business accounted for a substantial portion of our revenues. We expect to expand further into international markets, and may subject ourselves to the following risks:

- challenges in providing products, services and support, in recruiting personnel in international markets, and in managing sales channels and distribution networks effectively;
- revenue fluctuation from period to period in the future due to unfavorable market conditions, intensified competition, unattractive products and services, downward pressure on our selling price and any other inherent risks associated with our international business operations;
- challenges in commercializing our products in new markets where we have limited experience with the local market dynamics and no existing or developed sales, distribution and marketing infrastructure;
- difficulties in dealing with regulatory regimes, regulatory bodies and government policies with which we may be unfamiliar, in order to obtain permits, licenses and approvals necessary to manufacture or import, market and sell products in or to various jurisdictions;
- potentially reduced protection for our intellectual property rights and potential breach of third-party intellectual rights;
- differences in accounting treatment in different jurisdictions, potential adverse tax implications and foreign exchange losses;
- inability to effectively enforce contractual or legal rights; and



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- changes in laws, regulations and policies as well as political, economic and market instability or civil unrest in the relevant jurisdictions.

If we are unable to effectively avoid or mitigate these risks, our ability to expand in international markets will be impaired, or our international business may not be able to achieve or sustain profitability, which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

**Unauthorized use of our intellectual properties by third parties may harm our brand and reputation and materially and adversely affect our business, and we may incur substantial expenses to protect our intellectual property rights.**

We regard our patents, copyrights, trademarks and other intellectual properties as critical to our success. We rely on a combination of patent, trademark and copyright laws, trade secrets protection, restrictions on disclosure and other agreements that restrict the use of our intellectual properties to protect these rights. For details, see “Business — Intellectual Property.”

Our business partners may not always comply with our contract terms prohibiting the unauthorized use of our brands, images, characters and other intellectual property rights. The 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. In addition, third parties may independently discover trade secrets and proprietary information, limiting our ability to assert any trade secret rights against such parties.

In addition, our competitors and other third parties may register trademarks or apply for patents that are similar to ours, and may divert potential customers from us to them. Preventing such unfair competition activities is inherently difficult. If we are unable to prevent such activities, competitors and other third parties may drive potential customers away from our platforms, which could harm our reputation and materially and adversely affect our results of operations.

Implementation of intellectual property laws in China has been developing. Policing unauthorized use of our proprietary technology, trademarks and other intellectual property is difficult and expensive, and litigation may be necessary 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 and adversely affect our financial condition and results of operations.

**A substantial portion of our business depends on sales to the public sector. Uncertainties and changes in government policies in respect of, and government spending on, the AI-related products and services may negatively affect our business, financial condition and results of operations.**

During the Track Record Period, we generated 28.6%, 41.9%, 39.7% and 47.6% of our revenues from our Smart City business in 2018, 2019, 2020 and the six months ended June 30, 2021,

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respectively. However, government spending is subject to changes that are beyond our control, such as the future growth of urban population or changes in government's fiscal policy. If government spending that relates to our business does not continue to grow or remain at the current level, the business, results of operations, financial condition and prospects of our business could be materially and adversely affected.

Sales to the public sector can be expensive, and time-consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale. Accordingly, our business, financial condition, results of operations, and growth prospects may be adversely affected by certain events or activities, including, but not limited to:

- Changes in fiscal or procurement procedures or decreases in available government funding;
- Changes in policy or priorities and resultant funding;
- Changes in the government's assessment of the capabilities that we offer;
- Appeals, disputes, or litigation relating to government procurement, including but not limited to bid protests by unsuccessful bidders on potential or actual awards of contracts to us or our partners by the government;
- Additional selection processes administered by the system integrators engaged;
- The adoption of new laws or regulations or changes to existing laws or regulations;
- Budgetary constraints, including constraints imposed by any lapses in appropriations for the governments or certain of their departments and agencies;
- Influence by, or competition from, third parties with respect to pending, new, or existing contracts with government customers; and
- Potential delays or changes in the government appropriations or procurement processes, including as a result of events such as incidents of natural disasters and public health concerns or epidemics, such as the recent coronavirus outbreak.

Any such event or activity, among others, could cause governments and public sector customers to delay or refrain from purchasing our products and services in the future, reduce the size or payment amounts of purchases from existing or new government or public sector customers or end users, or otherwise have an adverse effect on our business, results of operations, financial condition, and prospects.

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**If we are not successful in maintaining and expanding the compatibility of our products and services with third-party products and services, our business, financial condition, and results of operations could be adversely impacted.**

The competitive position of our products and services depends in part on their ability to operate with products and services of third parties. We intend to facilitate the compatibility of our platforms with various third-party hardware, software, and infrastructure by maintaining and expanding our business and technical relationships.

In recent years, smart devices including mobile phones, tablets, wearable devices and other IoT devices have gained increasing popularity. We expect this trend of technology development to continue as more advanced mobile communications technologies are broadly implemented. IT systems deployed by enterprises are also diversified and vary from each other. As such, we must continuously modify and enhance our products and services, including our software platforms, sensors and chips, to adapt to changes in hardware, software, networking, browser, and database technologies.

As we make our services available across a variety of IT systems and devices, we depend on the compatibility of our services with mainstream devices and IT systems that we do not control. For example, if a third-party were to develop software or services that compete with ours, that provider may choose not to support one or more of our platforms. In addition, in the future, one or more technology companies may choose not to support the operation of their hardware, software, or infrastructure that our platforms are compatible with, or our platforms may not support the capabilities needed to operate with such hardware, software, or infrastructure.

Any changes to technologies used in our products and services to existing features that we rely on, or to IT systems which make it difficult for our customers or end users to access our products or services, may make it more difficult for us to maintain or increase our revenues. As a result, our business, financial condition, and results of operations could be adversely impacted.

**Our business depends substantially on the continuing efforts of our talent pool comprising employees or scientists that supports our existing operations and future growth. If we are unable to retain, attract, recruit or train such personnel, our business may be materially and adversely affected.**

Our success depends on our ability to attract, recruit and train a large number of qualified employees and retain existing key personnel including renowned scientists. In particular, we rely on our research and development team to develop our advanced algorithms and technologies and our experienced sales personnel to maintain relationship with our customers. In order to compete for talent, we may need to offer higher compensation, better training and more attractive career opportunities and other benefits to our employees, which may be costly. We cannot assure you that we will be able to attract or retain a qualified workforce necessary to support our future growth. Furthermore, any disputes between us and our employees or any labor-related regulatory or legal proceedings may divert management and financial resources, negatively impact staff morale, reduce

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our productivity, or harm our reputation and future recruiting efforts. In addition, our ability to train and integrate new employees into our operations may not meet the demands of our growing business. Any of the above issues related to our workforce may materially and adversely affect our operations and future growth.

**Rumors or negative publicity involving our Company, products and services, management, customers, business partners or the AI industry in general, may materially and adversely affect our reputation, business, results of operations and prospects.**

We and several companies in our industry in China have received a high degree of negative media coverage or citation by pressure groups around the world concerning our products and services, customers and business practices. Negative publicity or citation involving our industry, our Company, our products and services, our management, our customers or our business partners may materially and adversely harm our business and reputation. However, we cannot preclude media reports of similar nature being made in the future, nor can we assure you that we will be able to defuse such negative publicity or citation to the satisfaction of our investors, customers and business partners or prevent related misconception and other damages caused by such reports. We may have to incur significant expenses and divert our management's time and attention in order to remedy the effects of these negative reports, which may materially and adversely affect our results of operations.

**Our business is dependent on the strengths and market acceptance of our brands, including SenseTime. If we fail to maintain and enhance our brands, or if we incur excessive expenses in this effort, our business, results of operations and prospects may be materially and adversely affected.**

Our business and financial performance depends on the strength and the market acceptance of our brands. We have established a strong brand name and reputation for our products and services, especially in China. Any loss of trust in our products and services could harm the value of our brands, which could materially reduce our revenue and gross margin.

From time to time, we participate in offline events, such as industry conferences, product launches and industry salons, and work with media or search engine companies to associate our brands and reputation with technology or to promote our new products and services, which may cause us to substantially increase our marketing expenditures. However, we cannot assure you that these activities will be successful or that we will be able to achieve the promotional effect we expect.

If we are unable to maintain our reputation, enhance our brand recognition or promote our products and services, or if we incur excessive expenses in this effort, our business and growth prospects may be materially and adversely affected.

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### **Confidentiality agreements and non-compete covenants with employees and other third parties may not adequately prevent disclosure of trade secrets and other proprietary information.**

We have devoted substantial resources to the development of our technology and knowhow. Although we enter into employment agreements with confidentiality, non-compete covenants and intellectual property ownership clauses with our employees, certain consultants and advisors, we cannot assure you that these agreements will not be breached, that we will have adequate remedies for any breach in time or at all, or that our proprietary technology, know-how or other intellectual property will not otherwise become known to third parties. In addition, others may independently discover trade secrets and proprietary information, limiting our ability to assert any proprietary rights against such parties. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive position.

### **Any failure to offer high-quality maintenance and support services for our customers or end users may harm our relationships with them and, consequently, our business.**

As we continue to grow our operations and support our customer base, we need to be able to continue to provide efficient support and effective maintenance that meets our customers' needs at scale. We may not be able to recruit or retain sufficient qualified support personnel with experiences in supporting customers and end users of our products and services. As a result, we may be unable to respond quickly enough to accommodate short-term increases in customer and end user demand for technical support or maintenance assistance. We also may be unable to modify the future scope and delivery of our maintenance services and technical support to compete with changes in the technical services provided by our competitors.

If we experience increased customer and end user demand for support and maintenance, we may face increased costs that may harm our results of operations. If we are unable to provide efficient customer and end user maintenance and support, our business may be harmed. Our ability to attract new customers is highly dependent on our business reputation and on positive recommendations from our existing customers and end users. Any failure to maintain high-quality maintenance and support services or a market perception that we do not maintain high-quality maintenance and support services for our customers and end users, would harm our business.

Our policy allows products with defects to be returned and exchanged by our customers within the warranty period. In addition, we typically offer a limited warranty for our products. If we experience any deterioration in the quality of our products, we will incur higher costs associated with returns, exchanges and warranties. We may also be required by law to adopt new or amend existing return, exchange and warranty policies from time to time. While these policies improve customer experience and promote customer loyalty, which may in turn help us acquire and retain customer, they also subject us to additional costs and expenses which we may not recoup through increased revenue. We cannot assure you that our return, exchange and warranty policy will not be misused by our customers, which may significantly increase our costs and may materially and adversely affect our business and results of operations. If we revise these policies to reduce our costs

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and expenses, our customers may be dissatisfied, which may result in loss of existing customers or failure to acquire new users at a desirable pace, which may materially and adversely affect our results of operations.

**Our results of operations, financial condition and prospects may be adversely affected by fair value changes of our preferred shares and other financial liabilities and valuation uncertainty due to the use of unobservable inputs that require judgment and assumptions which are inherently uncertain.**

In 2018, 2019 and 2020 and the first half of 2021, we realized net fair value losses of preferred shares and other financial liabilities of RMB3,182.0 million, RMB3,681.5 million, RMB10,563.6 million and RMB1,713.6 million, respectively. We use significant unobservable inputs, such as expected volatility, discount for lack of marketability and discount rate, in valuing such preferred shares and other financial liabilities. The fair value change of preferred shares and other financial liabilities may significantly affect our financial position and results of operations. Accordingly, such determination requires us to make significant estimates, which may be subject to material changes, and therefore inherently involves a certain degree of uncertainty. We had no other financial liabilities as of June 30, 2021, but we expect to recognize additional loss from the fair value changes of our preferred shares after June 30, 2021 to the Listing Date. After the automatic conversion of the preferred shares into Shares upon Listing, which will result in a net asset position, we do not expect to recognize any further loss or gain on fair value changes of preferred shares in the future.

**We face risks associated with our investments, including exposure to fair value changes of financial assets at fair value through profit or loss and valuation uncertainty due to the use of unobservable inputs that require judgement and assumptions which are inherently uncertain.**

We currently invest a portion of our capital in investments. During the Track Record Period, we had invested in debt, equity and structured deposits and may, from time to time, invest in such products in the future. As of June 30, 2021, our financial assets at fair value through profit or loss amounted to RMB6,687.0 million, including structured deposits of RMB2,186.4 million, representing approximately 20.7% of our total assets. We use significant unobservable inputs, such as expected volatility, discount for lack of marketability, risk-free rate and expected rate of return, in valuing such financial assets. The fair value change of financial assets at fair value through profit or loss may significantly affect our financial position and results of operations. Accordingly, such determination requires us to make significant estimates, which may be subject to material changes, and therefore inherently involves a certain degree of uncertainty. Factors beyond our control can significantly influence and cause adverse changes to the estimates we use and thereby affect the fair value of such financial assets. These factors include, but are not limited to, general economic condition, changes in market interest rates and the stability of capital markets. Any of these factors, as well as others, could cause our estimates to vary from actual results, which could materially and adversely affect our results of operation and financial condition. In addition, the process for determining whether an impairment of financial asset is other-than-temporary usually requires complex and subjective judgments, which could subsequently prove to have been wrong.

Furthermore, our investments may earn yields substantially lower than anticipated, and the fair values of our investments may fluctuate significantly, which contribute to the uncertainties in

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valuation. Any failure to realize the benefits we expected from these investments may materially and adversely affect our business and financial results. We had aggregated net fair value gains on financial assets at fair value through profit or loss, which were mainly our debt and minority equity investment in certain entities and funds, of RMB70.5 million, RMB170.7 million and RMB147.9 million in 2018 and 2020 and the six months ended June 30, 2021, respectively. We had net fair value losses on financial assets at fair value through profit or loss of RMB118.1 million in 2019. Any change in securities prices and market conditions could lead to volatility in the fair values of our financial assets at fair value through profit or loss, which could further impact our financial condition and results of operations and may also impact our ability to dispose of these financial instruments at favorable prices.

**Our investments or acquisitions may have a material adverse effect on our business, reputation, financial condition and results of operations.**

We have invested in certain businesses in recent years, and we expect to continue to evaluate and consider a wide array of investments and acquisitions that we believe can extend and solidify our market-leading position as part of our overall business strategy. We may be engaged in discussions or negotiations with respect to one or more of these types of transactions. These transactions involve significant challenges and risks, including:

- difficulties integrating into our operations the personnel, operations, products and services;
- robustness of technology, internal controls and financial reporting of companies we acquire;
- disrupting our ongoing business, distracting our management and employees and increasing our expenses;
- losing established client relationships of the businesses we invest in or acquire;
- for investments over which we do not obtain management and operational control, we may lack influence over the controlling partner or shareholder, which may prevent us from achieving our strategic goals in such investment;
- new regulatory requirements and compliance risks that we become subject to as a result of acquisitions in new industries or otherwise;
- actual or alleged misconduct or non-compliance by any company we acquire or invest in (or by its affiliates) that occurred prior to our acquisition or investment, which may lead to negative publicity, government inquiry or investigations against such company or against us;

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- unforeseen or hidden liabilities or costs that may adversely affect us following our acquisition of such targets;
- regulations including the anti-monopoly and competition laws, rules and regulations of the PRC and other countries in connection with any proposed investments and acquisitions;
- the risk that any of our pending or other future proposed acquisitions does not close;
- the costs of identifying and consummating investments and acquisitions;
- the use of substantial amounts of cash and potentially dilutive issuances of equity securities;
- significant reduction of the value of our investments at fair value through profit or loss; and
- challenges in achieving the expected benefits of synergies and growth opportunities in connection with these acquisitions and investments.

Any such developments described above could disrupt our existing business and have a material adverse effect on our business, reputation, financial condition and results of operations.

**We may fail to effectively implement our future expansion and acquisition plans. Even if we succeed in such attempts, our investments or acquisitions may have a material adverse effect on our business, reputation, financial condition and results of operations.**

We may grow our business through organic growth, and investments in and/or acquisitions of companies that are complementary to our business in the future. Our ability to grow through acquisition depends upon our ability to identify, negotiate, and complete suitable acquisitions and to obtain any necessary financing for such acquisitions. We have limited experience in acquisitions. We may not be able to identify appropriate potential acquisition targets, and even if we were able to do so, we may not be able to successfully execute any proposed acquisitions. If we undertake such acquisition but fail to either complete the acquisition or integrate the acquired businesses successfully into our existing operations, our share price, business, financial condition, results of operations and prospects may be materially and adversely affected.

We have invested in certain businesses in recent years, and we expect to continue to evaluate and consider a wide array of investments and acquisitions that we believe can extend and solidify our market-leading position as part of our overall business strategy. We may be engaged in discussions or negotiations with respect to one or more of these types of transactions. See “Future Plans and Use of Proceeds — Use of Proceeds — Potential Strategic Investment and Acquisition Opportunities.”



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### **Fluctuations in exchange rates could have a material and adverse effect on our results of operations and the value of your investment.**

The value of Renminbi against the Hong Kong dollar, the U.S. dollar and other currencies fluctuates, is subject to changes resulting from governmental policies and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. 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 we cannot assure you that 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. governmental policies may impact the exchange rate between Renminbi and the U.S. dollar in the future.

We are primarily exposed to changes in RMB/USD exchange rates. In 2018 and 2019, we had net foreign exchange losses of RMB38.6 million and RMB16.8 million, respectively, and in 2020 and the first half of 2021, we had net foreign exchange gains of RMB407.5 million and RMB63.1 million, respectively, as a result of foreign exchange gains/losses on translation of foreign currency denominated cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables.

The proceeds from the Global Offering will be received in Hong Kong dollars. As a result, any appreciation of the Renminbi against the Hong Kong dollar may result in the decrease in the value of our proceeds from the Global Offering. Conversely, any depreciation of the Renminbi may adversely affect the value of, and any dividends payable on, our Shares in foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. Furthermore, we are also currently required to complete filings with and obtain approvals from SAFE or its local counterparts or qualified banks, as applicable, before converting significant sums of foreign currencies into Renminbi. All of these factors could materially and adversely affect our business, financial condition, results of operations and prospects, and could reduce the value of, and dividends payable on, our Shares in foreign currency terms.

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

Our contract liabilities represent our obligations to provide the contracted products and services to customers. Our contract liabilities mainly arise from the advance payment made by customers while the underlying products and services are not yet to be provided. As of December 31, 2018, 2019 and 2020 and June 30, 2021, we had contract liabilities of approximately RMB70.2 million, RMB152.9 million, RMB253.4 million and RMB157.8 million, respectively. For further details, see “Financial Information — Discussion of Certain Key Balance Sheet Items — Contract Liabilities.” There is no assurance that we will be able to fulfil our obligations in respect of contract liabilities. If we are not able to fulfil our obligations with respect to our contract liabilities, the amount of contract liabilities will not be recognized as revenue, and we may have to return the

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advance payment made by our customers. As a result, our results of operations, liquidity and financial position may be materially and adversely affected.

**Our technology infrastructure may experience unexpected system failure, interruption, inadequacy, security breaches or cyber-attacks. Our reputation, business and results of operations may be harmed by service disruptions or by our failure to timely and effectively scale up and adapt our existing technology and infrastructure.**

Our technology infrastructure may encounter disruptions or other outages caused by problems or defects in our own technologies and systems, such as malfunctions in software or network overload, and by damages from fires, floods, earthquakes and other natural disasters, telecommunication failures, power loss, human error or other accidents. Our infrastructure and systems may be breached if any vulnerabilities therein are exploited by unauthorized third parties. We cannot assure you that any applicable recovery system, security protocol, network protection mechanisms or other defense procedures are, or will be, adequate to prevent such network or service interruptions, system failures or data losses. Despite any precautionary measures we may take, the occurrence of unanticipated problems that affect our technology infrastructure could result in interruptions in the availability of our products and services. It may be difficult for us to respond to such interruptions in a timely manner, or at all.

Any such disruption or inadequacy that causes interruptions to our operations, or failure to maintain the network and server or solve such problems in a timely manner, could affect the ability of customers to use our cloud-based products and services and reduce our customer satisfaction. An actual or perceived attack or security breach may damage our reputation and brand, expose us to risks of potential litigation and liabilities, and require us to expend significant capital and other resources to alleviate problems caused by such attacks or security breaches. As a result, our reputation, business and financial condition could be adversely affected.

**If we fail to obtain and maintain the requisite licenses and approvals required in any jurisdiction where we operate our business, our business, financial condition and results of operations may be materially and adversely affected.**

The industries we operate in are highly regulated. For example, under the current PRC regulatory scheme, a number of governmental authorities, including but not limited to the SAMR, MIIT, MPS, MOFCOM, NDRC, CAC and NMPA, jointly regulate major aspects of our industries. We are also required to obtain and maintain the requisite licenses and approvals required in other jurisdictions where we operate our business.

As confirmed by our PRC Legal Advisor, as of the Latest Practicable Date, we had obtained all the licenses and made all the filings with competent governmental authorities in all material aspects that are essential to the operation of our business in China. However, we cannot assure you that we can successfully update or renew the licenses required for our business in a timely manner or that these licenses are sufficient to conduct all of our present or future business. Considerable uncertainties exist regarding the interpretation and implementation of existing and future laws,

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regulations and policies governing our business activities. We cannot assure you that we will not be found in violation of any future laws, regulations and policies or any of the laws, regulations and policies currently in effect due to changes in the relevant authorities' interpretation of these laws, regulations and policies. If we fail to complete, obtain or maintain any of the required licenses or approvals or make the necessary filings in any of the jurisdiction where we operate our business, we may be subject to various penalties, such as confiscation of the revenue that were generated through the unlicensed internet or mobile activities, the imposition of fines and the discontinuation or restriction of our operations. Any such penalties may disrupt our business operations and materially and adversely affect our business, financial condition and results of operations. For further details on the requisite licenses and approvals for our business operations, see "Regulatory Overview."

**We may be subject to product liability claims if our products or services contain defects. We could incur significant expenses to remediate such defects, as a result, our reputation could be damaged and we could lose market shares, and our financial condition and results of operations may be negatively affected.**

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

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

**We may be subject to intellectual property infringement claims, which could be time-consuming or costly to defend and may result in diversion of our financial and management resources.**

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate trademarks, copyrights, patents, know-how, trade secrets or other intellectual property rights held by third parties without our awareness. We have not been subject to material proceedings and claims pending or threatened against us relating to the intellectual property

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rights of others, yet we may from time to time be subject to such proceedings and claims in the future. We cannot assure you that holders of patents or other intellectual property rights purportedly relating to some aspect of our technology infrastructure or business, if any such holders exist, would not seek to enforce such patents or other intellectual property rights against us in mainland China, the United States or any other jurisdictions. Further, the application and interpretation of China's laws relating to patents and other intellectual property rights and the procedures and standards for granting such patents or other intellectual property rights in China are still evolving and uncertain, and we cannot assure you that PRC courts or regulatory authorities would agree with our analysis. As we face increasing competition from other competitors in China, there may be a higher risk for us to be subject to intellectual property infringement claims or other legal proceedings. We may incur additional costs in monitoring and detecting potential infringement.

If we are found to have violated the intellectual property rights of others, we may be subject to liability for our infringement activities or may be prohibited from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives of our own. Defending against any infringement or licensing allegations and claims can be costly and time consuming and may divert management's time and other resources from our business and operations, and the outcome of many of these claims and proceedings cannot be predicted. If a judgment, a fine or a settlement involving a payment of a material sum of money were to occur, or injunctive relief were issued against us, it may result in significant monetary liabilities and may materially disrupt our business and operations by restricting or prohibiting our use of the intellectual property in question, and our business, financial position, results of operations, prospects and reputation could be materially and adversely affected.

**We may be involved in legal proceedings and commercial disputes, which could have a material adverse effect on our business, financial condition and results of operations.**

We are subject to claims and various legal and administrative proceedings, and, as a result, penalties that have arisen in the ordinary course of business, and new claims may arise in the future. In addition, agreements entered into by us may include indemnification provisions which may subject us to costs and damages in the event of a claim against an indemnified third party.

We have also been, and may continue to be, subject to various intellectual property infringement or misappropriation claims, see "Risk Factors — We may be subject to intellectual property infringement claims, which could be time-consuming or costly to defend and may result in diversion of our financial and management resources."

Regardless of the merit of particular claims, legal and administrative proceedings, such as litigations, injunctions and governmental investigations, may be expensive, time-consuming or disruptive to our operations and distracting to management. In recognition of these considerations, we may enter into new or further licensing agreements or other arrangements to settle litigation and resolve such disputes. No assurance can be given that such agreements can be obtained on acceptable terms or that litigation will not occur. These agreements may also significantly increase our operating expenses.

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We are subject to anti-corruption, anti-money laundering, anti-bribery and other relevant laws and regulations in the jurisdictions where we operate. We may be subject to investigations and proceedings by governmental authorities for alleged infringements of these laws if our compliance processes or internal control systems are not conducted or are not operating properly. These proceedings may result in fines or other liabilities and could have a material adverse effect on our reputation, business, financial conditions and results of operations. If any of our subsidiaries, employees or other persons engage in fraudulent, corrupt or other unfair business practices or otherwise violate applicable laws, regulations or internal controls, we could become subject to one or more enforcement actions or otherwise be found to be in violation of such laws, which may result in penalties, fines and sanctions and in turn adversely affect our reputation, business, financial condition and results of operations. Given the uncertainty, complexity and scope of many of these litigation matters, their outcome generally cannot be predicted with a reasonable degree of certainty. Therefore, our provision for such matters may be inadequate.

Our Directors had confirmed that, during the Track Record Period and up to the Latest Practicable Date, there were no legal or administrative proceedings pending or threatened against us or any of our Directors that could, individually or in the aggregate, have a material effect on our business, financial condition or results of operations. However, new legal or administrative proceedings and claims may arise in the future and the current legal or administrative proceedings and claims we face are subject to inherent uncertainties. If one or more legal or administrative matters were resolved against us or an indemnified third party for amounts in excess of our management's expectations or certain injunctions are granted to prevent us from using certain technologies in our products and services, our business and financial conditions could be materially and adversely affected. Further, such an outcome could result in significant compensatory, punitive or other monetary damages, disgorgement of revenue or profits, remedial corporate measures, injunctive relief or specific performance against us that could materially and adversely affect our financial condition and operating results. Moreover, even if we eventually prevail in these matters, we could incur significant legal fees or suffer significant reputational harm, which could have a material and adverse effect on our prospects and future growth, including our ability to attract new business partners, expand our relationships with governmental regulators and industry groups and recruit and retain employees and agents. For further details regarding our legal proceedings and non-compliance events, see "Business — Legal Proceedings and Compliance" and "Business — Licenses, Approvals and Permits."

**Any future occurrence of force majeure events, natural disasters or outbreaks of contagious diseases such as COVID-19 may materially and adversely affect our business, financial condition and results of operations.**

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics and contagious diseases, including COVID-19, avian influenza, severe acute respiratory syndrome, H1N1 influenza or Ebola virus, may materially and adversely affect our business, financial condition and results of operations. An outbreak of an epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activities in affected areas, which may, in turn, materially and adversely affect our business. Moreover, the PRC has experienced natural disasters such as earthquakes, floods and droughts in the past few years. Any future occurrence of severe

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natural disasters in the PRC may materially and adversely affect its economy and therefore our business. We cannot assure you that any future occurrence of natural disasters or outbreaks of epidemics and contagious diseases, including COVID-19, avian influenza, severe acute respiratory syndrome, H1N1 influenza or other epidemics, or the measures taken by the PRC government or other countries in response to such contagious diseases, will not seriously disrupt our operations or those of our customers, which may materially and adversely affect our business, financial condition and results of operations.

**If we fail to implement and maintain an effective system of internal controls, 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 Shares may be materially and adversely affected.**

We may identify 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 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 Shares. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations and civil or criminal sanctions. We may also be required to restate our financial statements from prior periods.

**Misconduct, non-compliance and omissions by our employees or third parties could harm our business and reputation.**

Misconduct and omissions by our employees could subject us to liability or negative publicity. Although we have implemented strict human resources risk management policies, and we have in place an employee handbook approved by our management and distributed to all our employees, which contains broad internal rules and guidelines and cover areas such as best commercial practices, work ethics, fraud prevention mechanisms and regulatory compliance, there can be no assurance that our employees will not engage in misconducts or omissions that could materially and adversely affect our business, financial condition and results of operations.

Misconduct and omissions by our business partners, including our various suppliers, service providers and customers, as well as other third parties who have entered business relationships with our business partners, could subject us to liability or negative publicity. Although we have strict standards to choose our service providers, they may be subject to regulatory penalties or punishments because of their regulatory compliance failures, which may, directly or indirectly, affect our business. We cannot be certain whether such third party has infringed or will infringe any other parties' legal rights or violate any regulatory requirements. We cannot rule out the possibility of incurring liabilities or suffering losses due to any non-compliance by third parties. We cannot assure you that we will be able to identify irregularities or non-compliances in the business practices

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of our business partners or other third parties, or that such irregularities or non-compliance will be corrected in a prompt and proper manner. The legal liabilities and regulatory actions on our business partners or other third parties involved in our business may affect our business activities and reputation, which may in turn affect our results of operations.

**We involve third parties in our operations to supply certain components of our products and manufacture, assemble, test, package and deliver certain of our products. Such arrangements may reduce our control over supply sufficiency, product quantity and quality, development, enhancement and product delivery schedule and could harm our business.**

We engage suppliers and contract manufacturers to supply certain components of our products and produce, assemble and test our products. We have also outsourced much of our transportation and logistics management, including packaging and delivery of our products. While these arrangements may lower our operating costs, they may also reduce our direct control over production and distribution. We may experience operational difficulties with our suppliers, contract manufacturers and logistics service providers, including supply shortage, reductions in the availability of production capacity, failures to comply with product specifications, insufficient quality control, failures to meet production deadlines, increases in assembling costs and longer lead time required. For example, supply shortages for semiconductors broadly in the market, as occurred in 2021, may have an impact on the supply of semiconductors for our AI infrastructure and software-embedded hardware products. In anticipation of such potential supply shortages and the supply chain disruptions induced by the COVID-19 pandemic, we strategically stored additional inventories of semiconductors in 2020, and our inventories increased by 66.4% from RMB430.1 million as of December 31, 2019 to RMB715.5 million as of December 31, 2020. As we expand our sensor and semiconductor businesses, we will require access to more manufacturing capacity which may or may not be available, or with acceptable terms or costs. Our suppliers, contract manufacturers and logistics service providers may experience disruptions in their production and assembly operations due to equipment breakdowns, labor strikes or shortages, natural disasters, component or material shortages, cost increases, environmental non-compliance issues or other similar problems. In addition, we may not be able to renew contracts with our suppliers, contract manufacturers or logistics service providers or identify substitute partners who are capable of supplying services, components and assembly capacities for new products we target to launch in the future. Although arrangements with these partners may contain provisions for warranty expense reimbursement, we may remain responsible for the customer for warranty service in the event of product defects and could experience an unanticipated product defect or warranty liability. Any failure of our suppliers, contract manufacturers and logistics to perform their responsibilities or to be in compliance with all applicable laws and regulations may have a material negative impact on our cost or supply of components or finished goods. In addition, assembly or logistics in our primary locations or transit to final destinations may be disrupted for a variety of reasons including, but not limited to, natural and man-made disasters, information technology system failures, commercial disputes, military actions or economic, business, labor, environmental, public health, or political issues.

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**We face inventory obsolescence, shortage or excess risks. Our results of operations could be materially harmed if we are unable to accurately forecast demand for our products.**

Our inventory mainly includes purchased hardware and components and contract fulfillment cost. Although we believe we are able to carry fewer purchased hardware and components and lower our inventory risk through close coordination with our customers and our contract manufacturers, we may strategically keep a higher level of stock for certain key hardware to preempt possible industry-wide shortages. As of December 31, 2018, 2019, 2020 and June 30, 2021, we had inventories of RMB117.3 million, RMB430.1 million, RMB715.5 million and RMB667.2 million, respectively.

Maintaining an optimal level of inventory is important for the success of our business. However, we are exposed to inventory obsolescence and inventory shortage risks as a result of a variety of factors beyond our control, including, changes of customer needs and the inherent uncertainty of the success of product launches. We regularly track our inventory to keep it at a level sufficient to fulfill customers' orders. We also proactively assess changes in market conditions and pre-store strategic raw materials in anticipation of potential supply shortage. However, we cannot assure you that we can accurately predict these trends and events and avoid under-stocking or over-stocking inventory, or that our inventory management measures will be implemented effectively so that we will not have significant levels of inventory obsolescence, shortage or excess. As a result of unforeseen or sudden events, we may experience slow movement of our inventories, fail to utilize or sell our inventories swiftly, or face the risk of inventory obsolescence, and our business, results of operations, financial condition and prospects may be adversely affected.

**We are uncertain about the recoverability of our deferred tax assets, which may affect our financial positions in the future.**

As of December 31, 2018, 2019 and 2020 and June 30, 2021, our deferred tax assets amounted to RMB39.9 million, RMB261.2 million, RMB450.3 million and RMB538.9 million, respectively, which mainly represent the provision for impairment of receivables and unused tax losses from certain companies of our Group. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered. In this context, we cannot guarantee the recoverability or predict the movement of our deferred tax assets, and to what extent they may affect our financial positions in the future.

**We may be the subject of anti-competitive, harassing or other detrimental conducts by third parties that could harm our reputation and cause us to lose market share, customers and revenues.**

We may be the target of anti-competitive, harassing, or other detrimental conduct by third parties. Such conduct includes complaints, anonymous or otherwise, to regulatory agencies. We may be subject to government or regulatory investigation as a result of such third-party conduct and may



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be required to expend 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 online by anyone, whether or not related to us, on an anonymous basis. Customers value readily available information concerning retailers, manufacturers, and their goods and services and often act on such information without further investigation or authentication and without regard to its accuracy. The availability of information on social media is virtually immediate, as is its impact. Social media immediately publish the content their subscribers and participants post, often without filters or checks on the accuracy of the content posted. Information posted may be inaccurate and adverse to us, and it may harm our financial performance, prospects or business. 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 anonymous allegations or malicious statements about our business, which in turn may cause us to lose market share, customers and revenues.

**We have granted share-based awards in the past under our share incentive plan and may continue to grant share-based awards in the future, which may result in increased share-based compensation expenses and have an adverse effect on our future profitability.**

We adopted a share incentive plan for the purpose of granting share-based compensation awards to our officers, directors, employees and other eligible persons to incentivize their performance and align their interests with ours. We believe the granting of share-based compensation awards is of significant importance to our ability to attract and retain key personnel and employees, and we may continue to grant share-based compensation awards in the future. As a result, our expenses associated with share-based compensation may increase, which may have a material and adverse effect on our financial condition and results of operations. Our ability to attract or retain highly skilled employees may be adversely affected by declines in the perceived value of our equity or equity awards. Furthermore, there are no assurances that the number of shares reserved for issuance under our share incentive plan will be sufficient to grant equity awards adequate to recruit new employees and to compensate existing employees. In case we decide to reserve and issue additional shares under our share incentive plan, your interests in our Company will be further diluted by such issuance.

**Our leased or owned property interests may be defective and our right to lease or use the properties may be challenged, which could cause additional expenses or significant disruption to our operation.**

We lease properties for our office and other uses. As of the Latest Practicable Date, the relevant lessors of 38 of our leased properties had provided us with valid property certificates or relevant authorization documents evidencing their rights to lease the properties to us, while with respect to 58 of our leased properties, valid property ownership certificates or other similar proofs of certain leased properties have not been provided to us by the relevant lessors. Therefore, we cannot assure you that such lessors are entitled to lease the relevant properties to us. If the lessors are not entitled to lease the properties to us and the owners of such properties decline to ratify the lease agreements between us and the respective lessors, we may not be able to enforce our rights to lease

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such properties under the respective lease agreements against the owners. As of the date of this prospectus, we are not aware of any claim or challenge brought by any third parties concerning the use of our leased properties without obtaining proper ownership proof. If our lease agreements are claimed as null and void by third parties who are the real owners of such leased properties, we could be required to vacate the properties, in which event we could only initiate the claim against the lessors under relevant lease agreements for indemnities for their breach of the relevant leasing agreements. We cannot assure you that suitable alternative locations are readily available on commercially reasonable terms, or at all, and if we are unable to relocate our operations in a timely manner, our operations may be interrupted. For details, see “Business — Properties.” Furthermore, as of the Latest Practicable Date, we have obtained the ownership certificates for our owned land use rights in Xuhui District and Pudong District, Shanghai, and we have obtained the requisite construction permits with respect to the construction of our Shanghai Lingang AIDC on the parcel of land in Pudong District. For more details, see “Business — Properties.” Under the PRC legal regime regarding the land use right, land shall be used in line with the approved usage of the land. Any change as contemplated to the usages of land shall go through relevant land alteration registration procedures by landlords. As such, failure to do so may subject the landlords to a fine, additional expenses or retrieval of land or removal of the buildings by the PRC government authorities and therefore we may need to move our offices or relevant properties somewhere else and may incur additional expense or experience disruption of our operation due to our defective property rights, which could adversely affect our finance, business and operations.

**Most of the lease agreements of our leased properties have not been registered with the relevant PRC government authorities as required by PRC law, which may expose us to potential fines.**

Pursuant to applicable PRC laws and regulations, property lease agreements must be filed with the local branch of the Ministry of Housing and Urban-Rural Development of the PRC. As of the Latest Practicable Date, we have successfully filed leases for 19 properties we leased in China, while the lease agreements for 77 of our leased properties have not been registered with the PRC governmental authorities as required by the PRC laws, primarily due to the difficulty of procuring our lessors’ cooperation to file such leases, among other things. Although the failure to do so does not in itself invalidate the leases, we may be ordered by the PRC government authorities to rectify such noncompliance and, if such noncompliance were not rectified within a given period of time, we may be subject to fines imposed by PRC government authorities ranging from RMB1,000 and RMB10,000 for each of our lease agreements that have not been registered with the relevant PRC governmental authorities. As of the date of this prospectus, we are not aware of any regulatory or governmental actions, claims or investigations being contemplated or any challenges by third parties to our use of our leased properties the lease agreements of which have not been registered with the government authorities. However, we cannot assure you that the government authorities will not impose fines on us due to our failure to register any of our lease agreements, which may negatively impact our financial condition. For details, see “Business — Properties.”

**We could face challenges from mortgage holders of some of our leased properties, which could cause additional expenses and adversely affect our daily operations.**

We may be subject to other risks related to our leased properties. For example, as of the Latest Practicable Date, 13 of our leased properties had been mortgaged at the time the leases were entered

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into. These properties are primarily being used as our offices. As advised by our PRC Legal Advisor, our right to use the mortgaged properties are subject to the rights of mortgage relating to the relevant properties. In case such properties we leased are transferred due to the enforcement of mortgages, which had been set before the properties were leased to us, we may be required to relocate. As of the date of this prospectus, we had not been aware of any enforcement of the mortgages of our leased properties. We cannot assure you that in the future, we may not encounter such challenges from the mortgage holders. In the event of relocation, we may incur additional costs, which could adversely affect our daily operations. For details, see “Business — Properties.”

**Failure to renew our current leases at reasonable terms or to locate desirable alternatives for our offices and facilities could materially and adversely affect our business and results of operations.**

We generally enter into long-term leases. We may not be able to successfully extend or renew such leases upon expiration of the current term on commercially reasonable terms, or at all, and may therefore be forced to relocate our affected operations. This could disrupt our operations and result in significant relocation expenses, which could adversely affect our business, financial condition and results of operations. In addition, we compete with other businesses for premises at certain locations or of desirable sizes. As a result, even though we could extend or renew our leases, rental payments may significantly increase as a result of the high demand for the leased properties. In addition, we may not be able to locate desirable alternative sites for our facilities as our business continues to grow, and failure in relocating our affected operations could adversely affect our business and operations.

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

We believe we maintain insurance policies in line with industry standards. We do not maintain business interruption insurance. Any uninsured occurrence of business disruption, litigation or natural disaster, or significant damages to our uninsured equipment or facilities could have a material adverse effect on our results of operations. We also do not maintain key-man life insurance or litigation insurance. The insurance industry in China is still at an early stage of development, and insurance companies in China currently offer limited business-related insurance products. As such, we may not be able to insure certain risks related to our assets or business even if we desire to. If we were to incur substantial losses or liabilities due to fire, explosions, floods or other natural disasters, disruption in our network infrastructure or business operations, or any material litigation, our results of operations could be materially and adversely affected. Our current insurance coverage may not be sufficient to prevent us from any loss and there is no certainty that we will be able to successfully claim our losses under our current insurance policy on a timely basis, or at all. 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.

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### RISKS RELATING TO OUR CORPORATE STRUCTURE

**If the PRC government deems our Contractual Arrangement does not comply with PRC regulatory restrictions on foreign investment in 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 internet-based businesses, such as distribution of online information and internet data center, 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 (except for e-commerce, domestic multi-party communications, storage-forwarding and call centers) and any such foreign investor must have experience in providing value-added telecommunications services overseas and maintain a good track record in accordance with the Special Administrative Measures (Negative List) for Foreign Investment Access (2020 Version) (外商投資准入特別管理措施(負面清單)(2020年版)) (the “Negative List”) issued on June 23, 2020 and effective on July 23, 2020, by the National Development and Reform Commission (the “NDRC”) and Ministry of Commerce of the PRC (“MOFCOM”), and other applicable laws and regulations. In particular, the business scope of telecommunications companies is limited to the business opened according to China’s WTO commitments in accordance with such Negative List. In addition, China’s commitment to open telecommunication business does not include data center business pursuant to the Protocol on the Accession of the PRC, effective on December 10, 2001. Pursuant to the Mainland and Hong Kong Closer Economic Partnership Agreement and Mainland and Macao Closer Economic Partnership Agreement (collectively, the “CEPA Agreements”), Mainland China has promised to open mainland data center business to service providers in Hong Kong Special Administrative Region and Macao Special Administrative Region subject to certain limitations. For further information, see “Regulatory Overview — Regulations on Value-Added Telecommunication Services.”

We are a Cayman Islands exempted company and our PRC subsidiaries are considered foreign-invested enterprises or FIEs. Therefore, neither we nor our FIEs are currently eligible to apply for the required licenses for providing internet data center services or other value-added telecommunication services or conduct other businesses that foreign-owned companies are prohibited or restricted from conducting in China. To comply with PRC laws and regulations, we conduct a portion of operations in China through our Consolidated Affiliated Entities, which hold such required license relating to internet data centers. We have entered into contractual arrangement with our Consolidated Affiliated Entities and its shareholders, which enable us to (i) exercise effective control over our Consolidated Affiliated Entities, (ii) receive all or substantially all of the economic benefits and bear the obligation to absorb all or substantially all of the losses of our Consolidated Affiliated Entities, and (iii) have an exclusive option to purchase all or part of the equity interests in our Consolidated Affiliated Entities when and to the extent permitted by PRC laws. The contractual arrangement gives us effective control over the Consolidated Affiliated Entities and enables us to obtain substantially all of the economic benefits arising from the Consolidated Affiliated Entities as well as to consolidate their financial results in our results of operations. For a detailed description of our contractual arrangement, see “Contractual Arrangement.”

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In the opinion of our PRC Legal Advisor, (i) the ownership structure of VIE WFOE and the respective Consolidated Affiliated Entities, currently and immediately after giving effect to this offering, does not and will not result in violation of the mandatory requirements of applicable PRC laws and regulations currently in effect; and (ii) the contractual arrangement among VIE WFOE, the respective Consolidated Affiliated Entities and the shareholders of the Consolidated Affiliated Entities governed by PRC law, currently and immediately after giving effect to this offering, is and will be valid and binding, and does not and will not result in violation of the mandatory requirements of PRC laws or regulations currently in effect. However, we have been advised by our PRC Legal Advisor that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules, and there can be no assurance that the PRC regulatory authorities will take a view that is consistent with the opinion of our PRC Legal Advisor. 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, otherwise our contractual arrangement accordingly may be subject to adjustment and amendment.

In particular, the Foreign Investment Law was approved by the National People's Congress with effects from January 1, 2020 and the corresponding Implementation Rules of Foreign Investment Law and Interpretation of the Supreme People's Court on Several Issues Concerning the Application of the Foreign Investment Law and the Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law as latest promulgated by PRC authorities. There are uncertainties as to how the current Foreign Investment Law and those PRC laws and regulations and policies would be further interpreted and implemented, if it would represent a major change to the laws and regulations and policies relating to the VIE structures. For more details, see “— Risks Relating to Our Corporate Structure — Substantial uncertainties exist with respect to the interpretation and implementation of the newly adopted PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations,” and “— Risks Relating to Doing Business in China — The M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of PRC companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.” If the ownership structure, contractual arrangement and businesses of our PRC subsidiaries or our Consolidated Affiliated Entities are found to be in violation of any existing or future PRC laws or regulations, or the VIE WFOE or the respective Consolidated Affiliated Entities 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;
- shutting down our servers or blocking our website, or discontinuing or placing restrictions or onerous conditions on our operations through any transactions between the VIE WFOE and the respective Consolidated Affiliated Entities;
- imposing fines, confiscating the income from the VIE WFOE or the respective Consolidated Affiliated Entities, or imposing other requirements with which we or our variable interest entity may not be able to comply;

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- requiring us to restructure our ownership structure or operations, including terminating the contractual arrangement with our variable interest entity and deregistering the equity pledge of our Consolidated Affiliated Entities, which, in turn, would affect our ability to consolidate, derive economic interests from, or exert effective control over our variable interest entity;
- restricting or prohibiting our use of the proceeds of this offering to finance our business and operations in China, and taking other regulatory or enforcement actions that could be harmful to our business;
- confiscating any of our income that they deem to be obtained through illegal operations;  
or
- imposing additional conditions or requirements with which we may not be able to comply or could be harmful to our business.

Any of these actions 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 any of these occurrences results in our inability to direct the activities of our Consolidated Affiliated Entities that most significantly impact its economic performance, and/or our failure to receive the economic benefits from Consolidated Affiliated Entities, we may not be able to consolidate that entity in our consolidated financial statements in accordance with IFRS.

**Substantial uncertainties exist with respect to the interpretation and implementation of the newly adopted 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 of the PRC approved the Foreign Investment Law (中華人民共和國外商投資法), which took effect on January 1, 2020 and replaced 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. Along with the Foreign Investment Law, the Implementing Regulation of Foreign Investment Law (中華人民共和國外商投資法實施條例) promulgated by the State Council and the Interpretation of the Supreme People’s Court on Several Issues Concerning the Application of the Foreign Investment Law (最高人民法院關於適用《中華人民共和國外商投資法》若干問題的解釋) promulgated by the Supreme People’s Court became effective on January 1, 2020. Since the Foreign Investment Law and its current implementation and interpretation rules are relatively new, uncertainties still exist in relation to their further interpretation and implementation. The variable interest entity structure has been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. According to the Foreign Investment Law, the “foreign investment” refers to investment activities carried out directly or indirectly by foreign natural persons, enterprises or other organizations (“Foreign Investors”),

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including the following: (1) Foreign Investors establishing foreign-invested enterprises in China alone or collectively with other investors; (2) Foreign Investors acquiring shares, equities, properties or other similar rights of Chinese domestic enterprises; (3) Foreign Investors investing in new projects in China alone or collectively with other investors; and (4) Foreign Investors investing through other ways prescribed by laws, regulations or guidelines of the State Council. The Foreign Investment Law and its corresponding implementation rules and judiciary interpretation do not explicitly classify whether variable interest entities that are controlled through contractual arrangement are or would be deemed as foreign-invested enterprises if they are ultimately “controlled” by foreign investors.

However, it has a catch-all provision under the definition of “foreign investment” that includes investments made by foreign investors in China through other means as provided by laws, administrative regulations or the provisions of State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions of the State Council to provide for contractual arrangement as a form of foreign investment. There can be no assurance that our control over our Consolidated Affiliated Entities through contractual arrangement will not be deemed as a foreign investment in the future.

The Foreign Investment Law grants national treatment to foreign-invested entities, except for those foreign-invested entities that operate in industries specified as either “restricted” or “prohibited” from foreign investment in a “negative list.” The Foreign Investment Law provides that foreign-invested entities operating in “restricted” or “prohibited” industries will require market entry clearance and other approvals from relevant PRC government authorities. Pursuant to the Negative List, the value-added telecommunication services we provide fall within the restricted category. It remains unclear that whether the “negative list” to be published pursuant to the Foreign Investment Law will differ from the current negative list. If our control over our Consolidated Affiliated Entities through contractual arrangement is deemed as a foreign investment in the future, and any business of our Consolidated Affiliated Entities is “restricted” or “prohibited” from foreign investment under the “negative list” effective at the time, we may be deemed to be in violation of the Foreign Investment Law, the contractual arrangement that allows us to have control over our Consolidated Affiliated Entities may be deemed as invalid and illegal, and we may be required to unwind such contractual arrangement and/or restructure our business operations, any of which may have a material adverse effect on our business operations.

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

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**Any failure by our Consolidated Affiliated Entities or its shareholders to perform their obligations under our contractual arrangement with them would have a material and adverse effect on our business.**

We have relied and expect to continue to rely on contractual arrangement with our Consolidated Affiliated Entities and their respective shareholders to conduct a portion of our operations in China. For a description of our contractual arrangement, see “Contractual Arrangement.” If our Consolidated Affiliated Entities or its shareholders breach or fail to perform their obligations under the contractual arrangement, we may have to incur substantial costs and expend additional resources to enforce such arrangement. Moreover, the shareholders of our Consolidated Affiliated Entities may have potential conflicts of interest with us. These shareholders may cause our Consolidated Affiliated Entities to breach, or refuse to renew, the existing contractual arrangement we have with them and our Consolidated Affiliated Entities, which would have a material and adverse effect on our ability to effectively control our Consolidated Affiliated Entities and receive economic benefits from it. We cannot assure you 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, all the agreements under our contractual arrangement 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. As a result, uncertainties in the PRC legal system could limit our ability to address such potential conflict of interests and enforce our contractual arrangement. Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangement in the context of a variable interest entity should be interpreted or enforced under PRC law. There remain significant uncertainties regarding the ultimate outcome of such arbitration should legal action become necessary. In addition, 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. In the event we are unable to enforce our contractual arrangement, or if we suffer significant delay or other obstacles in the process of enforcing the contractual arrangement, we may not be able to exert effective control over our variable interest entity, and our ability to conduct our business may be negatively affected. See “— Risks Relating to Doing Business in China — The PRC legal system is evolving, and the resulting uncertainties could adversely affect us.”

**We rely on contractual arrangement with our Consolidated Affiliated Entities and its shareholders to exercise control over our business, which may not be as effective as direct ownership in providing operational control.**

We have relied and expect to continue to rely on contractual arrangement with our Consolidated Affiliated Entities and its shareholders, including the power of attorney, to conduct our operations in China. For a description of our contractual arrangement, see “Contractual Arrangement.” In particular, our ability to control our Consolidated Affiliated Entities depends on the power of attorney, pursuant to which each of the shareholders of Shanghai Qianlun irrevocably



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appoints the VIE WFOE or its designated persons, as his, her or its attorney-in-fact to exercise such shareholders' rights in Consolidated Affiliated Entities, including, without limitation, the power to vote on his, her or its behalf on all matters of Consolidated Affiliated Entities requiring shareholder approval. We believe the rights granted under the power of attorney are legally enforceable but may not be as effective as direct equity ownership. The shareholders of our Consolidated Affiliated Entities may not act in the best interests of our Company or may not perform their obligations under these contracts. If we had direct ownership of our Consolidated Affiliated Entities, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of our Consolidated Affiliated Entities, which, in turn, could implement changes, subject to any applicable fiduciary obligations, at the management and operational level. However, under the contractual arrangement, we would rely on legal remedies under PRC law for breach of contract in the event that our Consolidated Affiliated Entities and its shareholders did not perform their obligations under the contracts. These legal remedies may not be as effective as direct ownership in providing us with control over our variable interest entity.

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

Pursuant to the contractual arrangement, the VIE WFOE has the exclusive right to purchase all or any part of the equity interests in the respective Consolidated Affiliated Entities from their respective shareholders at a nominal price or at the lowest amount or the price otherwise acceptable to VIE WFOE allowed by the relevant PRC laws.

Currently, we consider that it is not viable for our Company to hold the Consolidated Affiliated Entities directly or indirectly through equity ownership. For a description of our contractual arrangement, see "Contractual Arrangement." However, we cannot assure you the governmental authorities will not impose additional requirements, such as to the extent as required by the then effective PRC laws, transforming our Consolidated Affiliated Entities into those directly or indirectly through equity ownership by foreign investors in whole or at a restricted percentage. If required so, we might have to exercise the option to acquire equity ownership of the Consolidated Affiliated Entities in accordance with our contractual arrangement. The equity transfer of such Consolidated Affiliated Entities may be subject to approvals from and filings with the MOFCOM or its local counterparts. The licenses relating to value added telecommunications hold by such entities may be scrutinized or renewed at the MIIT or its local counterparts in substance. In addition, the transfer price might be subject to review and tax adjustment with reference to its market value by the relevant tax authority. Where the PRC laws stipulate the lowest price above the nominal price, or the relevant tax authority refers to market value for the tax ability of Consolidated Affiliated Entities and their respective shareholders, the shareholders of Consolidated Affiliated Entities will pay the remaining amount to VIE WFOE under the contractual arrangement. The amount to be received by VIE WFOE may also be subject to a significant amount of enterprise income tax, which may have an adverse effect on our financial conditions.

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**Our contractual arrangement with our Consolidated Affiliated Entities may be subject to scrutiny by the PRC tax authorities and they may determine that we or our Consolidated Affiliated Entities 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 within ten years after the taxable year when the transactions are conducted. Under the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) amended and effective on December 29, 2018 (the “Enterprise Income Tax Law”), every enterprise in China must submit its annual enterprise income tax return together with a report on transactions with its related parties to the relevant tax authorities. The PRC tax authorities may impose reasonable adjustments on taxation if they have identified any related party transactions that are inconsistent with arm’s length principles. We have entered into the Contractual Arrangement amongst our VIE WFOE, Consolidated Affiliated Entities and its registered shareholders, respectively, under which we are able to exercise effective control over our Consolidated Affiliated Entities and all economic benefits arising from the businesses of each of our Consolidated Affiliated Entities are transferred to its VIE WFOE to the extent permitted under PRC laws by means of services fees payable by our variable interest entity to such VIE WFOE. For a description of our contractual arrangement, see “Contractual Arrangement.” We may face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangement between each of the VIE WFOE, our Consolidated Affiliated Entities, and its shareholders was 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 our Consolidated Affiliated Entities’ taxable income in the form of a transfer pricing adjustment. PRC tax authorities may form the view that our Consolidated Affiliated Entities or our subsidiaries have improperly minimized their tax obligations, and we may not be able to rectify any such incident within the limited timeline required by PRC tax authorities. In addition, if the VIE WFOE requests the shareholders of our Consolidated Affiliated Entities respectively to transfer their equity interests in our Consolidated Affiliated Entities at nominal or no value pursuant to the contractual agreement, such transfer could be viewed and subject the VIE WFOE to PRC income tax. Furthermore, the PRC tax authorities may impose late payment fees and other penalties on our variable interest entity for the adjusted but unpaid taxes according to the applicable regulations. Our financial position could be materially and adversely affected if our variable interest entity’s tax liabilities increase or if it is required to pay late payment fees and other penalties.

**We may lose the ability to use and benefit from assets held by our Consolidated Affiliated Entities and its subsidiaries that are material to the operation of our business if the entity goes bankrupt or become subject to a dissolution or liquidation proceeding.**

As part of our Contractual Arrangement, the Consolidated Affiliated Entities holds certain assets and licenses that are material to the operation of our business. If our Consolidated Affiliated Entities go 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 Arrangement, our Consolidated Affiliated Entities may not, in any manner, sell, transfer,

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mortgage or otherwise dispose of its assets or legal or beneficial interests in the business without our prior consent. If our Consolidated Affiliated Entities undergo a voluntary or involuntary liquidation proceeding, unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business and compromising our qualification for certain licenses or permits indispensable to us, which could materially and adversely affect our business, financial condition and results of operations.

### **RISKS RELATING TO DOING BUSINESS IN CHINA**

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

A significant portion of our operations are conducted in China. Accordingly, our results of operations, financial condition and prospects are subject, to a significant degree, to the economic, political, social and legal developments in China. Generally, PRC government regulates the economy and related industries by imposing industrial policies and regulating the PRC’s macro-economy through fiscal and monetary policies. During the past decades, PRC Government has taken various actions to promote market economy and the establishment of sound corporate governance in business entities. The PRC government also exerts significant influence over China’s economic growth through strategically allocating resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. While the PRC economy has experienced significant growth over the past decades, the growth rate of the Chinese economy has gradually slowed, and China has undergone the impact of COVID-19 pandemic on the Chinese economy in 2020 and such impact may still count. It may be difficult for us to predict all the risks and uncertainties that we may face as a result of the current economic, political, social and regulatory development, any prolonged slowdown in the Chinese economy may reduce our clients’ demand for our products and services and materially and adversely affect our business and results of operations. Furthermore, any major changes in the policies of the PRC government or in the laws and regulations in China could have a material impact on the overall economic growth of China.

**The PRC legal system is evolving, and the resulting uncertainties could adversely affect us.**

We conduct our business primarily through our subsidiaries and consolidated affiliated entities in China. Our operations in China are governed by PRC laws and regulations. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but have limited precedential value.

As the legislation in China and the PRC legal system has continued to evolve rapidly over the past decades and the PRC government has made significant progress in promulgating laws and regulations related to economic affairs and matters, for example, such laws and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, many of these laws and regulations are relatively new and there is a limited volume of published decisions and enactments. In particular, there exist substantial uncertainties surrounding

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the evolvement, interpretation and enforcement of regulatory requirements of cybersecurity, data security, privacy protection as well as anti-monopoly, and we may need to take certain corresponding measures to maintain our regulatory compliance, such as adjusting the relevant business or transactions and introducing compliance experts and talents, which may incur additional related costs and adverse impact on our business. As a result, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit legal protections available to us. Therefore, there are uncertainties involved in their implementation and interpretation, and it may be difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection available to you and us. Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, and any failure to respond to changes in the regulatory environment in China could materially and adversely affect our business and impede our ability to continue our operations.

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

We are a holding company, and we may rely on dividends and other distributions on equity paid by our PRC subsidiaries for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. Additionally, if our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends or make other distributions to us. Furthermore, the PRC tax authorities may require our PRC subsidiaries to adjust their taxable income under the contractual arrangement they currently have in place with our variable interest entity in a manner that would materially and adversely affect their ability to pay dividends and other distributions to us. See “— Risks Relating to Our Corporate Structure — Our contractual arrangement with our Consolidated Affiliated Entities may be subject to scrutiny by the PRC tax authorities and they may determine that we or our Consolidated Affiliated Entities owe additional taxes, which could negatively affect our financial condition and the value of your investment.”

Any limitation on the ability of our PRC subsidiaries to pay dividends or make other distributions 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. See also “— If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in PRC taxation and implications upon us and our non-PRC shareholders.”

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**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 our offshore offerings to make loans to or make additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.**

Under PRC laws and regulations, we are permitted to utilize the proceeds from this Global Offering to fund our PRC subsidiaries by making loans to or additional capital contributions to our PRC subsidiaries, subject to applicable government registration and approval requirements. These PRC laws and regulations may significantly limit our ability to use Renminbi converted from the net proceeds of this Global Offering to fund the establishment of new entities in China by our PRC subsidiaries, to invest in or acquire any other PRC companies through our PRC subsidiaries, or to establish a new variable interest entity in China. According to the relevant PRC regulations on foreign-invested enterprises in the PRC, capital contributions to our PRC subsidiaries are subject to the requirement of making necessary filings and registration with SAMR and other governmental authorities in the PRC. In addition, (i) any foreign loan procured by our PRC subsidiaries is required to be registered with SAFE, or its local counterparts; and (ii) each of our PRC subsidiaries may not procure loans which exceed the difference between its registered capital and its total investment amount as recorded in the filings with competent governmental authorities or the upper limit calculated based on a statutory formula under the macro-prudential management of full-covered cross-border financing by SAFE and PBOC. Any medium or long-term loan to be provided by us to our variable interest entity and its subsidiaries must be recorded and registered by the NDRC and SAFE or its local counterparts. Moreover, we cannot assure you that we will be able to complete the necessary registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans to our PRC subsidiaries or future capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds we received or expect to receive from our offshore offerings 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.

On March 30, 2015, SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises (“Circular 19”), which took effect on June 1, 2015 and was amended on December 30, 2019. Circular 19 launched a nationwide reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises and allows foreign-invested enterprises to settle their foreign exchange capital at their discretion, but continues to prohibit foreign-invested enterprises from using RMB funds converted from their foreign exchange capital for expenditures beyond their business scope. On June 9, 2016, the SAFE promulgated the Notice on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange (“Circular 16”). Circular 16 prohibits foreign-invested enterprises from, among other things, using RMB funds converted from their foreign exchange capital for expenditure beyond their business scope, investment and financing (except for securities investment or non-guaranteed bank products), providing loans to non-affiliated enterprises or constructing or purchasing real estate not for self-use. In January 2017 and April 2020, SAFE further promulgated the Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification (“Circular 3”) and the

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Circular of the State Administration of Foreign Exchange on Optimizing Foreign Exchange Management Service in Support of Foreign Business Development (“Circular 8”), respectively. Circular 3 stipulates several capital control measures with respect to the outbound remittance of profits from domestic entities to offshore entities while Circular 8 stipulates the reform of facilitating the payments of incomes under the capital accounts shall be promoted nationwide. For further information, see “Regulatory Overview — Regulations on Foreign Exchange.” Circular 19, Circular 16, Circular 3 and Circular 8 may significantly limit our ability to transfer to and use the loans or investment in the PRC, which may materially and adversely affect our business, financial condition and results of operations.

**Governmental restrictions on currency conversion may limit our ability to utilize our revenue effectively and affect the value of your investment.**

The convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China are subject to restrictions of PRC foreign exchange regulations. Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. 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.

The PRC government may regulate cross border transactions falling under capital account and may also restrict access in the future to foreign currencies for current account transactions. We receive substantially all of our revenue in RMB, owing to the overall restrictions on foreign currency, and we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our Shares.

PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiaries’ ability to increase their registered capital or distribute profits to us or otherwise expose us or our PRC resident beneficial owners to liability and penalties under PRC law.

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 (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (“Circular 37”). Circular 37 requires PRC residents (including PRC individuals and PRC corporate entities as well as foreign individuals with a habitual residence in China due to economic interests) to register with SAFE or its local branches in connection with their direct or indirect offshore investment activities. 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 the offshore special purpose vehicle’s name and operation term, or any significant changes with respect to the PRC individual shareholder, such as increase or decrease of capital contribution, share transfer or exchange, or mergers or divisions. 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.

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If our shareholders who are PRC residents fail to make the required registration or to update the previously filed registration, our PRC subsidiaries 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 PRC subsidiaries. In February 2015, SAFE promulgated a Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知) (“Notice 13”), effective June 2015, and further amended by SAFE on December 30, 2019. Under Notice 13, applications for foreign exchange registration of inbound foreign direct investments and outbound overseas direct investments, including those required under 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.

As of the Latest Practicable Date, to the best of our knowledge, our shareholders had complied with the requirements as stipulated under Circular 37 in all material aspects. However, 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 Circular 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 for circumventing applicable foreign exchange restrictions. As a result, our business operations and our ability to distribute profits to you could be materially and adversely affected.

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

The M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009, among other things, established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. Such regulation requires, among other things, that the foreign investor should submit a declaration to the MOFCOM in advance of any change-of-control transaction in which a foreign investor acquires control of a PRC domestic enterprise and involves any of the following circumstances: (i) any important industry is concerned, (ii) such transaction involves factors that impact or may impact national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. We do not expect that any of our further merger and acquisition will trigger the requirement to submit such declaration to MOFCOM under each of the above-mentioned circumstances or any review by other PRC government authorities. Moreover, the Anti-Monopoly Law (中華人民共和國反壟斷法) promulgated by the Standing Committee of the National People’s Congress which became effective in 2008 requires that transactions which are deemed concentrations and involve parties with specified turnover thresholds must be notified and cleared by the Anti-Monopoly Bureau of SAMR before they can be completed.

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In addition, Implementation of Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, effective in September 2011 and Measures for the Security Review of Foreign Investment that came into effect in January 2021, requires acquisitions by foreign investors of PRC companies engaged in certain industries that are crucial to national security be subject to security review before consummation of any such acquisition.

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

We may pursue potential strategic acquisitions that are complementary to our business and operations. 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.

Our PRC Legal Advisors are of the opinion that, based on its understanding of the current PRC laws and regulations, each of the prior CSRC approval for the our Global Offering and MOFCOM approval is not required because (i) Beijing SenseTime, was incorporated as a domestic company in November 2014 and became a wholly foreign owned enterprise since August 2015 in accordance with the M&A rules, by Hong Kong SenseTime that was not being controlled directly or indirectly by PRC companies or individuals, (ii) our wholly foreign-owned enterprises, other than Beijing SenseTime, such as Shanghai SenseTime and Shenzhen SenseTime and its wholly-owned PRC subsidiaries, were not established through a 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 the beneficial owners of our Company, and (iii) no provision in the M&A Rules clearly classifies contractual arrangement as a type of transaction subject to the M&A Rules. However, uncertainties still exist as to how the M&A Rules and other PRC laws, regulations and government policies will be interpreted and implemented or whether the relevant authorities would promulgate further requirements. Recently, the relevant PRC government authorities issued Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. See "Regulatory Overview — Regulations on M&A and Overseas Listings." As these opinions are recently issued, official guidance and related implementation rules have not been issued yet and the interpretation of these opinions remains unclear at this stage. We cannot assure you that any new rules or regulations promulgated in the future will not impose additional requirements on us. If it is determined in the future that approval from the CSRC or other regulatory authorities or other procedures are required for this offering, we



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may face sanctions by the CSRC or other PRC regulatory authorities for failure to seek CSRC approval or other government authorization for this Global Offering. In addition, if the CSRC or other regulatory authorities later promulgate new rules or explanations requiring that we obtain their approvals or accomplish the required filing or other regulatory procedures for 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. Consequently, failure to comply with these regulatory authorities may impose fines and penalties on our operations in China, limit our ability to pay dividends outside of China, limit our operating privileges in China, delay or restrict the repatriation of the proceeds from this offering into China, halting this Global Offering or take other actions that could materially and adversely affect our business, financial condition, results of operations, and prospects, as well as the trading price of our shares. The regulatory authorities also may take actions requiring us, or making it advisable for us, to halt this Global Offering before settlement and delivery of the shares offered hereby. Thus, any uncertainties or negative publicity regarding such approval requirement could materially and adversely affect our business, prospects, financial condition, reputation, and the trading price of the shares.

**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.**

Under SAFE regulations, PRC residents who participate in a stock incentive plan in an overseas publicly listed company are required to register with SAFE or its local branches and complete certain other procedures. See “Regulatory Overview — Regulations on Foreign Exchange — Regulations on Stock Incentive Plans.” We and our PRC resident employees who participate in our share incentive plans will be subject to these regulations when our Company becomes publicly listed in Hong Kong. If we or any of these PRC resident employees fail to comply with these regulations, we or such employees, consultants and advisors may be subject to fines and other legal or administrative sanctions. We also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our directors, executive officers and employees under PRC law.

**If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in PRC taxation and implications upon us and our non-PRC shareholders.**

Under the Enterprise Income Tax Law and its implementing rules, an enterprise established outside of the PRC with a “de facto management body” within the PRC is considered a PRC resident enterprise. The implementing rules define the term “de facto management body” as the body that exercises full and substantial control over and overall management of the business, productions, personnel, accounts and properties of an enterprise. The SAT issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as People’s Republic of China Tax Resident Enterprises on the Basis of De Facto Management Bodies on April 22, 2009 and most recently amended on December 29, 2017 (“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 Circular 82 only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, the criteria set forth in the

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circular may reflect the SAT general position on how the “de facto management body” test should be applied in determining the tax resident status of all offshore enterprises. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made by 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 none of our entities outside of China is a PRC resident enterprise for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.” If the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, we will be subject to the enterprise income tax on our global income at the rate of 25% and we will be required to comply with PRC enterprise income tax reporting obligations.

**You may be subject to PRC withholding tax on dividends from us and PRC income tax on any gain realized on the transfer of our Shares.**

Under the current tax law in China, any dividends paid by us to non-PRC enterprise shareholders may be subject to PRC withholding tax at a rate of 10% in the case of non-PRC enterprise shareholders or 20% in the case of non-PRC individual shareholders if such dividends are deemed to be from PRC sources. In addition, gains realized on the sale or other disposition of our Shares may be subject to PRC tax at a rate of 10% in the case of non-PRC enterprise shareholders or 20% in the case of non-PRC individual shareholders if such gains are deemed to be from PRC sources. Any PRC tax liability may be reduced under applicable tax treaties. However, it is unclear whether non-PRC shareholders 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 Class B Shares.

**We may not be able to obtain certain benefits under the relevant tax arrangement for dividends paid by our PRC subsidiaries to us through our Hong Kong subsidiaries.**

We are a holding company incorporated under the laws of the Cayman Islands and as such rely on dividends and other distributions on equity from our PRC subsidiaries to satisfy part of our liquidity requirements. Pursuant to the Enterprise Income Tax Law, a withholding tax rate of 10% currently applies to dividends paid by a PRC “resident enterprise” to a foreign enterprise investor, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for preferential tax treatment. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention

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of Fiscal Evasion with respect to Taxes on Income, effective from December 8, 2006, such withholding tax rate may be lowered to 5% if a Hong Kong resident enterprise owns no less than 25% of a PRC enterprise's shares directly. On February 3, 2018, the SAT promulgated the Announcement of the State Administration of Taxation on Issues concerning "Beneficial Owners" in Tax Treaties which specifies different factors to be taken into consideration when analyzing whether an applicant could be recognized as a beneficial owner. If our Hong Kong subsidiaries are not considered as beneficial owner, they could not enjoy the tax preferential rate of 5%.

Furthermore, the Administrative Measures for Non-Resident Taxpayers to Enjoy Treaty Benefits, which became effective in January 2020, require non-resident enterprises to determine whether they are qualified to enjoy the preferential tax treatment under the tax treaties and file relevant materials with the tax authorities. There are also other conditions for enjoying the reduced withholding tax rate according to other relevant tax rules and regulations. See "Financial Information — Taxation — PRC." We intend to re-invest all earnings generated from our PRC subsidiaries for the operation and expansion of our business in China in the foreseeable future. We cannot assure you that our determination regarding our qualification to enjoy the preferential tax treatment will not be challenged by the relevant tax authority or we will be able to complete the necessary filings with the relevant tax authority and enjoy the preferential withholding tax rate of 5% under the arrangement with respect to any dividends to be paid by our PRC subsidiaries to our Hong Kong subsidiaries.

**We and our shareholders face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises, assets attributed to a PRC establishment of a non-PRC company or immovable properties located in China owned by non-PRC companies.**

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

- whether the value of the equity interest of the relevant offshore enterprise is mainly derived from PRC taxable assets;
- whether the assets of the relevant offshore enterprise mainly consist of direct or indirect investment in China;

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

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

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

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**It may be difficult to effect service of process upon us or our directors or officers named in this document who reside in China or to enforce foreign court judgments against them in China.**

It may be difficult to effect service of process outside China upon certain of our directors and officers, including with respect to matters arising under applicable securities laws. It may be difficult for you to enforce against us or our directors or officers in China any judgments obtained from courts outside of China.

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

**The PRC Labor Contract Law, any labor shortages, increased labor cost or other factors affecting our labor force may adversely affect our business, profitability and reputation.**

China’s overall economy and the average wage in China have increased in recent years and are expected to continue to grow. The average wage level for our employees has also increased in recent years. We expect that our labor costs, including wages and employee benefits, will continue to increase.

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We have been subject to stricter regulatory requirements in terms of entering into labor contracts with our employees and paying various statutory employee benefits, including pensions, housing fund, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. Pursuant to the PRC Labor Contract Law and its implementation rules, employers are subject to stricter requirements in terms of signing labor contracts, minimum wages, paying remuneration, determining the term of employee's probation and unilaterally terminating labor contracts. In October 2010, the Standing Committee of the National People's Congress promulgated the PRC Social Insurance Law, which came into effect on July 1, 2011, which was amended on December 29, 2018. On April 3, 1999, the State Council promulgated the Regulations on the Administration of Housing Accumulation Funds, which was amended on March 24, 2002 and March 24, 2019. Companies registered and operating in China are required under the Social Insurance Law and the Regulations on the Administration of Housing Accumulation Funds to, apply for social insurance registration and housing fund deposit registration within 30 days of their establishment and, to pay for their employees different social insurance including pension insurance, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to the extent required by law. However, certain of our PRC subsidiaries that do not hire any employees and are not a party to any employment agreement, have not applied for and obtained such registration. We could be subject to orders by the competent labor authorities for rectification and failure to comply with the orders may further subject us to administrative fines.

As the application and interpretation of labor-related laws and regulations are limited and still evolving, our employment practices may violate labor-related laws and regulations in China, which may subject us to labor disputes or government investigations. We cannot assure you that we have complied or will be able to comply with all labor-related law and regulations including those relating to obligations to make full social insurance payments and contribute to the housing provident funds. 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 will be adversely affected. In addition, any labor shortages, increased labor cost or other factors affecting our labor force in relation thereto, may adversely affect our business, profitability and reputation.

**If our preferential tax treatments are revoked, become unavailable or if the calculation of our tax liability is successfully challenged by the PRC tax authorities, we may be required to pay tax, interest and penalties in excess of our tax provisions, and our results of operations could be materially and adversely affected.**

Operating in the high-technology and software industry, a number of our PRC subsidiaries enjoy various types of preferential tax treatment according to the prevailing PRC tax laws. Our PRC subsidiaries may, if they meet the relevant requirements, qualify for three main types of preferential treatment, which are high and new technology enterprises specially supported by mainland China, software enterprises and key software enterprises within the scope of the mainland Chinese national plan.

For a qualified high and new technology enterprise, the applicable enterprise income tax rate is 15%. The high and new technology enterprise qualification is re-assessed by the relevant authorities

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every three years. Moreover, a qualified software enterprise is entitled to a tax holiday consisting of a two-year tax exemption beginning with the first profit-making calendar year and a 50% tax reduction for the subsequent three years. The software enterprise qualification is subject to an annual assessment. If our preferential tax treatments are revoked, become unavailable or if the calculation of our tax liability is successfully challenged by the PRC tax authorities, the discontinuation of any of the various types of preferential tax treatment we enjoy could materially and adversely affect our results of operations. See “Financial Information — Taxation — PRC.”

### **RISKS RELATING TO OUR WVR STRUCTURE**

**The concentration of our Share ownership limits our Shareholders’ ability to influence corporate matters.**

Our Company will be controlled through weighted voting rights. Each Class A Share has ten votes per share and each Class B Share has one vote per share, except with respect to voting on resolutions on the Reserved Matters, in relation to which each Share is entitled to one vote. Immediately after completion of the Global Offering, Prof. Tang, Dr. Xu Li, Dr. Wang and Mr. Xu Bing will be the WVR Beneficiaries and will beneficially own all of our issued and outstanding Class A Shares, which represent approximately 74.51% of the voting power of our issued and outstanding share capital for resolutions in relation to matters other than the Reserved Matters. The WVR Beneficiaries therefore has significant influence over management and affairs of our Company, and over all matters requiring shareholder approval, including the election of directors (excluding the appointment, election or removal of any independent non-executive Director) and significant corporate transactions, such as a merger or other sale of our company or our assets, for the foreseeable future. In addition, because each Class B Share carries only one-tenth of the voting rights of each Class A Share (except as required by applicable law and in relation to the Reserved Matters), the issuance of the Class B Shares, including future stock-based acquisition transactions and employee equity incentive programs, could prolong the duration of the WVR Beneficiaries’ ownership of our voting power immediately after the completion of Global Offering and their ability to determine the outcome of most matters submitted to a vote of our Shareholders. For further details about our shareholding structure, see “Share capital — Weighted Voting Rights Structure.”

The WVR Beneficiaries have substantial influence over our business and operations, including matters relating to management and policies, decisions in relation to acquisitions, expansion plans, business consolidation, the sale of all or substantially all of our assets, nomination of directors, dividends or other distributions, as well as other significant corporate actions. Following the completion of the Global Offering, the WVR Beneficiaries will collectively beneficially own all of our issued and outstanding Class A Shares, which represent approximately 74.51% of the voting power of our outstanding share capital. The concentration of voting power and the substantial influence of the WVR Beneficiaries over our Company may discourage, delay or prevent a change in control of our Company, which could deprive other Shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and reduce the price of our Shares. In addition, the interests of the WVR Beneficiaries may differ from the interests of our other Shareholders. Subject to the Listing Rules, our Articles of Association and other applicable laws and regulations, the WVR Beneficiaries will continue to have the ability to exercise their substantial

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influence over us and to cause us to enter into transactions or take, or fail to take, actions or make decisions which conflict with the best interests of our other Shareholders.

This concentrated control limits or severely restricts our Shareholders' ability to influence corporate matters and, as a result, we may take actions that our Shareholders do not view as beneficial. As a result, the market price of our Offer Shares could be adversely affected.

**Holders of our Class A Shares may exert substantial influence over us and may not act in the best interests of our independent Shareholders.**

Following completion of the Global Offering, the WVR Beneficiaries will be in a position to exert significant influence over the affairs of our Company and will be able to influence the outcome of any shareholders' resolutions (other than the Reserved Matters), irrespective of how other shareholders vote. The interests of the holders of our Class A Shares may not necessarily be aligned with the interests of our Shareholders as a whole, and this concentration of voting power may also have the effect of delaying, deferring or preventing a change in control of our company.

### RISKS RELATING TO THE GLOBAL OFFERING

**There has been no prior public market for our Offer Shares and the liquidity and market price of our Class B Shares may be volatile.**

Prior to completion of the Global Offering, there has been no public market for our Class B Shares. There can be no guarantee that an active trading market for our Class B Shares will develop or be sustained after completion of the Global Offering. The Offer Price is the result of negotiations between our Company and the Joint Representatives (for themselves and on behalf of the Underwriters), which may not be indicative of the price at which our Class B Shares will be traded following completion of the Global Offering. The market price of our Class B Shares may drop below the Offer Price at any time after completion of the Global Offering.

**The trading price of our Class B Shares may be volatile, which could result in substantial losses to you.**

The trading price of our Class B Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, mainland China, the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong may affect the volatility in the price of and trading volumes for our Class B Shares. A number of China-based companies have listed their securities, and some are in the process of preparing for listing their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The trading performances of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards China-based



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companies listed in Hong Kong and consequently may impact the trading performance of our Class B Shares. These broad market and industry factors may significantly affect the market price and volatility of our Class B Shares, regardless of our actual operating performance.

**The actual or perceived sale or availability for sale of substantial amounts of our Shares, especially by our Directors, executive officers and substantial shareholders, could adversely affect the market price of our Class B Shares.**

Future sales of a substantial number of our Shares, especially by our Directors, executive officers and substantial shareholders, or the perception or anticipation of such sales, could negatively impact the market price of our Class B Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate.

The Shares held by our current shareholders are subject to certain lock-up periods beginning on the date on which trading in our Class B Shares commences on the Hong Kong Stock Exchange, save for certain special circumstances. Such lock-up undertakings may be waived at the discretion of the Company together with the Joint Representatives as applicable. While we have not received any request from such persons to dispose of significant amounts of their Class B Shares after the expiry of, or, if waived, during the lock-up periods, we cannot assure you that they will not dispose of any Class B Shares they may own now or in the future.

**You will incur immediate and substantial dilution and may experience further dilution in the future.**

As the Offer Price of our Class B Shares is higher than the net tangible book value per Class B Share immediately prior to the Global Offering, purchasers of our Class B Shares in the Global Offering will experience an immediate dilution. If we issue additional Shares in the future, purchasers of our Class B Shares in the Global Offering may experience further dilution in their shareholding percentage.

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

The trading market for our Class B Shares depends in part on the research and reports that securities or industry analysts publish about us or our business. If research analysts do not establish and maintain adequate research coverage or if one or more of the analysts who covers us downgrades our Class B Shares or publishes inaccurate or unfavorable research about our business, the market price for our Class B Shares would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for our Class B Shares to decline.

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

This document, particularly the section headed “Industry Overview”, contains information and statistics relating to the industry in which we operate. Such information and statistics have been derived from third-party reports, either commissioned by us or publicly accessible, and other publicly available sources. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of such source materials. The information has not been independently verified by us, the Joint Representatives, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other party involved in the Global Offering, and no representation is given as to its accuracy. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practice, which may result in the statistics being inaccurate or not comparable to statistics produced for other economies. You should therefore not place undue reliance on such information. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In any event, you should consider carefully the importance placed on such information or statistics.

**You should read the entire document carefully and should not rely on any information contained in press articles or other media regarding us and the Global Offering.**

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