

RISK FACTORS

You should carefully consider all of the information in this document, including the risks and uncertainties described below before making an investment in our H Shares. You should pay particular attention to the fact that we conduct significant operations in China, the legal and regulatory environment of which differs in certain respects from that which prevails in other countries. Our business, financial condition, results of operations or prospects may be materially and adversely affected by any of these risks and the trading price of our H Shares may decline as a result. 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.

We believe there are certain risks and uncertainties involved in our operations, some of which are beyond our control. We have categorized these risks and uncertainties into: (i) risks relating to our business and industry; (ii) risks relating to doing business in China; and (iii) risks relating to the [REDACTED]. Additional risks and uncertainties that are presently not known to us or not expressed or implied below or that we currently deem immaterial could also harm our business, financial condition and operating results. You should consider our business and prospects in light of the challenges we face, including the ones discussed in this section.

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

The AI industries in which we operate are characterized by constant changes. If we fail to continuously improve our technology and provide innovative solutions that meet the expectations of our customers, our business, financial condition and results of operations may be materially and adversely affected.

The AI industries in which we operate are characterized by constant changes, including rapid technological evolution, frequent introductions of new products and solutions, continual shifts in customer demands and constant emergence of new industry standards and practices. Thus, our success will depend, in part, on our ability to respond to these changes in a cost-effective and timely manner. We need to constantly anticipate the emergence of new technologies and assess their market acceptance. We also need to invest significant resources, including financial resources, in R&D to lead technological advances in order to keep our solutions innovative and competitive in the market. However, R&D activities are inherently uncertain, and we might encounter practical difficulties in commercializing our R&D results. Our significant expenditures on R&D may not generate corresponding benefits. Given the fast pace with which the 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. In addition, new technologies in AI, deep learning, computer vision, controlling or optimization could render our technologies or solutions obsolete or unattractive. If we are unable to keep up with the technological developments in such areas or if new technologies render our technologies or solutions obsolete, customers may no longer be attracted to our solutions. As a result, our business, results of operations and financial condition would be materially and adversely affected.

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The AI solutions industries in which we operate are highly competitive and fragmented, and we face competition in several major aspects of our business. If we fail to compete successfully against our current or future competitors, our business, financial condition and results of operations may be materially and adversely affected.

The AI solutions industries, especially the enterprise AI solutions industry in which we operate, are highly competitive and fragmented. According to Frost & Sullivan, in 2020, we were the third largest AI technology driven solution provider in enterprise AI solutions market in China in terms of revenue with 0.3% market share among more than 1,500 market players. We primarily compete with other companies that focus on developing and commercializing AI products and solutions for enterprises. With respect to each industry vertical that we have entered into, we also compete against existing players which are not AI-driven in such vertical. As many end-users engage the service of system integrators when selecting suppliers or service providers, instead of negotiating with a large number of different suppliers and service providers, we engaged in contracts with these system integrators and mainly acted as a subcontractor to these system integrators during the Track Record Period. Therefore, we also face potential competition from other solutions providers also acting as subcontractors to these system integrators. We may also in the future face competition from new entrants that will increase the level of competition. For example, more established technology companies that possess substantial financial resources, sophisticated technological capabilities and broad distribution channels may develop solutions that directly compete with ours. Furthermore, we may face potential competition from global technology companies that seek to enter the China market, whether independently or through the formation of strategic alliances with, or acquisition of, AI companies in China. Increased competition could result in lower sales, price reductions, reduced margins and loss of market share. We may face further potential competition from the commodization of AI solutions, as our competitors may offer off-the-shelf AI solutions which may gain growing popularity.

Further, we may be required to make substantial additional investments in research, development, marketing and sales in order to respond to such competitive threats, and we cannot assure you that such measures will be effective. Our business model and our AI technologies may become commercialized and our products and services may be replicated by our competitors, requiring us to constantly update and improve the quality of our services in order to remain competitive. If we fail to do so, it will be difficult for us to differentiate ourselves from the intense competition and we may lose our customer base. Also, the rapid commercialization of our AI technologies in various industries may adversely impact our competitive advantages and our ability to retain our customers if we fail to successfully differentiate our services and products from our competitors. 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 could be adversely affected.

AI technologies are constantly evolving. Any flaws or misuse of the AI technologies, whether actual or perceived, whether intended or inadvertent, whether committed by us or by other third parties, could have negative impact on our business, reputation and the general acceptance of AI solutions by the society.

According to Frost & Sullivan, AI technologies are in the process of development and continue to evolve. Similar to many disruptive innovations, AI technologies present risks and challenges, such as misuse by third parties for inappropriate purposes, for purposes breaching public confidence or even violating applicable laws and regulations in China. Adoption of AI technologies in bias applications or mass surveillance could affect user perception, public opinions and their adoption. We have adopted a series of internal control measures to prevent the misuse of our technologies and data. For further

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information, see “Business—Risk Management and Internal Control”. However, we cannot assure you that the measures we take to prevent the misuse of our technologies 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, abusive or premature usage of AI technologies, whether actual or perceived, whether intended or inadvertent and whether by us or by third parties, may dissuade prospective customers from adopting AI solutions, may impair the general acceptance of AI solutions by the society, may attract negative publicity and adversely impact our reputation and may even violate applicable laws and regulations in China and subject us to legal or administrative proceedings, pressures from activist 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.

In addition, flaws or deficiencies in AI technologies could undermine the accuracy and thoroughness of the decisions and analysis made by the relevant products and solutions. 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 solutions, whether actual or perceived, could materially and adversely affect our business, reputation, results of operations and prospects.

We have incurred net losses and negative operating cash flow and there can be no assurance that we will not have losses and net cash outflow in the future.

In 2018, 2019, 2020 and the nine months ended September 30, 2021, we had net losses of RMB71.2 million, RMB248.4 million, RMB360.6 million and RMB438.0 million, respectively. In addition, we recorded net operating cash outflows of approximately RMB2.9 million, RMB189.0 million, RMB174.2 million and RMB174.4 million, in 2018, 2019, 2020 and the nine months ended September 30, 2021, respectively. Our net losses were primarily due to the significant increase in the general and administrative expenses and R&D expenses during the Track Record Period. We cannot assure you that we will be able to generate net profits or positive cash flow from operating activities in the future. If we fail to generate sufficient revenue from our operations, or if we encounter long-term and continuous net operating cash outflow in the future, we may not have sufficient working capital to cover our operating costs, and our business, financial position and results of operations may be materially and adversely affected.

We have a limited operating history, which makes it difficult to evaluate our business and future prospects.

We commenced business operation and started to commercialize our AI technologies in the 2018. Our revenue increased from RMB37.2 million in 2018 to RMB229.1 million in 2019 and further to RMB462.3 million in 2020, and increased from RMB297.6 million in the nine months ended September 30, 2020 to RMB553.0 million in the nine months ended September 30, 2021. 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 at all, in the future. Our growth prospects should be considered in light of the risks and uncertainties that we as a fast-growing company with a limited operating history may encounter, including, among others, risks and uncertainties regarding our ability to:

- maintain and upgrade our technology infrastructure;

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- upgrade our AI technologies and develop new technologies;
- retain existing customers and attract new customers to use our solutions;
- further commercialize our AI technologies;
- increase brand awareness through marketing and promotional activities;
- successfully compete with other companies that are currently in, or may in the future enter, our industries;
- attract, retain and motivate talented employees, including R&D talents as well as staff with in-depth industry know-how;
- expand into overseas markets;
- 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 capital expenditures and allocation of valuable management and employee resources. We cannot assure you that we will be able to effectively manage our growth or implement our business strategies effectively. If the market for our solutions 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 will be materially and adversely affected.

We have incurred net liabilities in the past, which we may continue to experience in the future.

We had net liabilities of RMB163.2 million and RMB514.0 million as of December 31, 2019 and 2020, respectively. Our net liabilities position as of December 2019 and 2020 were primarily due to the financial liabilities recorded in connection with our redeemable shares. On March 30, 2021, pursuant to the agreement among shareholders, shareholders with redeemable shares waived redeemable rights against the Company, tag-along rights, drag-along rights, anti-dilution and liquidation preference. As a result, the Company transferred the balance of financial liabilities of redeemable shares to capital reserve. Therefore, we do not expect to recognize any further loss or gain from change of the present value of redemption amount. However, we cannot assure you that we would not incur net liabilities position in the future which can expose us to the risk of shortfalls in liquidity. This in turn would require us to undertake additional equity financing, which could result in dilution of your equity interests. Any difficulty or failure to meet our liquidity needs as and when needed can have a material adverse effect on our prospects.

Failure to manage our inventory effectively could have a material and adverse effect on our business, financial condition and results of operations.

Our inventories have increased in recent periods, from RMB3.0 million as of December 31, 2018 to RMB32.3 million as of December 31, 2019, and further to RMB55.3 million as of December 31, 2020. Our inventories amounted to RMB43.4 million as of September 30, 2021. Our inventories turnover days were 36 days in 2018, 41 days in 2019, 49 days in 2020 and 35 days in the nine months ended September 30, 2021. Inventories turnover days for a period equals the average of the opening and closing inventories balance divided by cost of sales for the relevant period and multiplied by the number of days during such period. Inventories levels in excess of customer demand may result in inventory write-downs, expiration of products or an increase in inventory holding costs

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and a potential negative effect on our liquidity. As we plan to continue expanding our AI-based product and solution offerings, we expect to include more materials in our inventories, which will make it more challenging for us to manage our inventories effectively. If we fail to manage our inventories effectively, we may be subject to a heightened risk of inventories obsolescence and any such situation may have a material and adverse effect on our business, financial condition and results of operations.

Fluctuation of our financial assets at fair value through profit or loss has affected our results of operations during the Track Record Period and may continue to affect our results of operations in the future.

Fluctuation of fair value change of our current financial assets at fair value through profit or loss, which primarily consist of the structured deposits we purchased, may affect our results of operations. We made investments in structured deposits during the Track Record Period and recorded a fair value of structured deposits of RMB14.0 million, nil, nil and nil as of December 31, 2018, 2019, 2020 and September 30, 2021, respectively. The structured deposits we purchased were issued by commercial banks in China. We are exposed to credit risk in relation to our investments in structured deposits, which may adversely affect the net changes in their fair value. We cannot assure you that market conditions and regulatory environment will create fair value gains on the structured deposits we invest in or we will not incur any fair value losses on our investments in structured deposits in the future. If we incur such fair value losses, our results of operations, financial condition and prospects may be adversely affected. See note 3.1 and note 3.3 to the Accountant’s Report in Appendix I to this document for more details.

Details of our valuation techniques and sensitivity analysis of fair value to the unobservable inputs are set forth in note 3.3 to the Accountant’s Report set out in Appendix I to this document. Such techniques are subject to uncertainty. We cannot assure you that the fair value of our financial assets will not decrease in the future. Any significant decreases in the fair value of our financial assets would materially and adversely affect our financial condition.

We have granted, and may continue to grant, share options and other types of awards under our share incentive plan, which may result in increased share-based payment expenses.

We have adopted an Employee Incentive Scheme by a resolution of our Shareholders on March 31, 2021 as an amendment, restatement and consolidation of the previous rounds of employee share incentive schemes adopted by us since 2018 to incentivize the management team, retain talent and promote its long-term sustainable development. As of the Latest Practicable Date, 88,271,298 Shares were held by the Employee Incentive Platforms, representing approximately 17.15% of the aggregate amount of the Shares in issue immediately before the completion of the [REDACTED]. Our share-based payment expenses were RMB23.3 million, RMB53.2 million, RMB133.8 million and RMB295.6 million in 2018, 2019, 2020 and the nine months ended September 30, 2021, respectively. We believe the granting of share-based compensation benefits is of significant importance to our ability to attract and retain key personnel and employees, and we will continue to grant share-based compensation benefits to employees in the future. As a result, our share-based payment expenses may increase, which may have an adverse effect on our results of operations.

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We are investing heavily in our R&D efforts, which may negatively impact our profitability and operating cash flow in the future and may not generate the results we expect to achieve.

Our technological capabilities and infrastructure are critical to our success. The industries in which we operate are subject to rapid technological changes and are evolving quickly in terms of technological innovation. We need to allocate significant resources, including financial resources, to R&D to lead technological advances in order to make our solutions innovative and competitive in the market. As a result, we have been investing heavily on our R&D efforts. In 2018, 2019, 2020 and the nine months ended September 30, 2021, our R&D expenses were RMB28.7 million, RMB113.3 million, RMB181.5 million and RMB176.5 million, respectively. We expect that our R&D expenses will continue to increase in the future.

Furthermore, R&D activities are inherently uncertain, and we might encounter practical difficulties in commercializing our R&D results. Our significant expenditures on R&D may not generate corresponding benefits. Given the fast pace with which the 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 our industries could render our technologies, our technological infrastructure or solutions 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 revenue, profitability and market share.

If we fail to retain existing customers, attract new customers or increase the spending by our customers, our business and results of operations may be materially and adversely affected.

We have been expanding our customer base to cover a range of industry verticals. Our abilities to retain existing customers, attract new customers, as well as increase the spending by our customers depend on a number of factors, including our ability to offer more AI solutions that address the needs of our customers at competitive prices, the strength of our technologies and the effectiveness of our sales and marketing efforts. If we fail to retain existing customers or attract new customers, we may not be able to grow our revenue as quickly as we anticipate, or at all.

As our customer base grows and diversifies into other verticals, we may be unable to provide customers with products and solutions that meet the specific demand of such customers, and we may be unable to provide quality customer support, which could result in customer dissatisfaction, decreased overall demand for our solutions and loss of expected revenue. In addition, our inability to meet customer service expectations may damage our reputation and could consequently limit our ability to retain existing customers and attract new customers, which would materially and adversely affect our business and results of operations.

If our expansion into new verticals is not successful, our business, prospects and growth momentum may be materially and adversely affected.

Leveraging our computer vision and deep learning technologies as well as software and hardware integration capabilities, we are able to provide innovative AI solutions specifically designed to address diversified needs of our customers across different verticals. However, expanding solution categories involves new risks and challenges. Our lack of familiarity with new verticals may make it

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more difficult for us to keep pace with the evolving customer demands 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 will need to comply with new laws and regulations applicable to these businesses. Expansion into any new vertical may place significant strain on our management and resources, and failure to expand successfully could have a material adverse effect on our business and prospects.

We may not be able to effectively maintain our relationships with our business partners. Any negative development with respect to our relationships with our business partners may materially and adversely affect our business and brand.

We established CISAI Tech with CISDI Group and China Railway Qizhi with China Railway No. 4. We cooperate with and will continue our substantial cooperation with our joint venture partners in various aspects. If any of our joint venture partners discontinues their cooperation with us, reduces, suspends or terminates any type of support to us, we need to obtain such support from other business partners, or improve the capacities on our own. If we are unable to maintain our relationship with joint venture partners, our brand, business and operations could be materially and adversely affected.

We may fail to predict the future level of demand for our products and solutions.

It may not be possible for us to predict the future level of demand for our products and solutions as the demand of our customers in manufacturing industry and financial services industry may be affected by a combination of factors beyond our control, such as market or economic conditions, government policies and regulatory environment, making it different to predict our future financial performance. Our revenue generated from customers in manufacturing and financial services industry was RMB19.0 million, RMB132.0 million, RMB376.6 million and RMB473.9 million, accounting for 51.1%, 57.6%, 81.5% and 85.7% of our total revenue in 2018, 2019, 2020 and the nine months ended September 30, 2021, respectively. If we fail to respond to constant changes in market and political conditions, or if the major industries we operate in do not develop as we expect, we may lose significant business opportunities, and our business and results of operations may be materially and adversely affected.

Our business depends substantially on the continuing efforts of our management and other key personnel, as well as a competent pool of talents that support our existing operations and future growth. If we are unable to retain, attract, recruit and train such personnel, our business may be materially and adversely affected.

Our future success depends heavily on the continued contributions of our senior management, many of whom are difficult to replace. In particular, we rely on the expertise, experience and vision of our founders as well as other members of our senior management team. If any of our senior management becomes unable or unwilling to continue to contribute their services to us, we may not be able to replace them easily, or at all. As a result, our business may be severely disrupted, and our financial condition and results of operations may be materially and adversely affected.

Additionally, our future success also depends on our ability to attract, recruit and train a large number of qualified employees and retain existing key employees. In particular, we rely on our top-notch research and development team to develop our advanced algorithms and technologies and

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our experienced sales personnel to maintain relationship with our customers. In order to compete for talents, we may need to offer higher compensation, better trainings and more attractive career opportunities and other benefits to our employees, which may be costly and burdensome. 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 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.

We depend on third parties to manufacture, test, package and deliver certain of hardware components for our AI-based products and solutions. Such arrangements reduce our control over product quantity and quality, manufacturing yields, development, enhancement and product delivery schedule and could harm our business.

We engage suppliers and contract manufacturers to produce and test hardware components, such as servers, development boards and industrial cameras, which will be directly delivered to the customers’ venue to assemble with our software. While these arrangements may lower our operating costs, they also reduce our direct control over production and distribution. We may experience operational difficulties with our suppliers, contract manufacturers and logistics service providers, including 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. 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.

Export control and economic or trade restrictions that were imposed on a number of entities may affect our business, financial conditions and results of operations.

In 2019 and 2020, the U.S. government imposed targeted economic and trade restrictions on a number of Chinese companies and institutions that limit their access to U.S.-origin goods, software, and technologies (collectively, “items”), as well as items that contain a significant portion of certain U.S.-origin items or are a direct product of certain U.S.-origin items. We have conducted business with some of these entities.

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In addition, the U.S. government recently imposed certain restrictions on U.S. persons to engage in the purchase or sale of the publicly traded securities of certain Chinese companies. While we are not aware that the U.S. government plans to impose such restrictions on any company in our Group, we cannot preclude such a possibility. If that happens, our Group may suffer certain adverse consequences, such as limiting our Group’s ability to raise funds due to a lack of U.S. investors’ participation. See “Business—U.S. Export Control Laws and Regulations” for details.

U.S. export controls and trade laws and regulations are complex and likely subject to frequent changes, and the interpretation and enforcement of the relevant regulations involve substantial uncertainties, which may be driven by political and/or other factors that are out of our control or heightened by national security concerns. Such potential restrictions, as well as any associated inquiries or investigations or any other government actions, may be difficult or costly to comply with and may, among other things, delay or impede the development of our technology, products and solutions, hinder the stability of our supply chain, and may result in negative publicity, require significant management time and attention and subject us to fines, penalties or orders that we cease or modify our existing business practices, any of which may have a material and adverse effect on our business, financial condition and results of operations.

We may be subject to product liability claims if our products contain significant 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 thus be negatively impacted.

Although we have not been subject to product liability claims during the Track Record Period, we may be subject to such claims in the future if our products contain significant defects. As a result, sales of such products could expose us to product liability claims relating to personal injury or property damage and may require product recalls or other actions. Third parties subject to such injury or damage may bring claims or legal proceedings against us as the seller of the product. Although we would have legal recourse against the suppliers and contract manufacturers of such products under laws, attempting to enforce our rights against the suppliers and contract manufacturers may be expensive, time-consuming and ultimately futile. As a result, we could incur significant expenses to remediate such defects. Any material product liability claim, or litigation could have a material and adverse effect on our business, financial condition and results of operations. Even unsuccessful claims could result in the expenditure of funds and managerial efforts in defending them and could have a negative impact on our reputation, and we could lose market shares as a result.

Our business is dependent on the strengths and market acceptance of our brands. 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. Any loss of trust in our solutions 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 partners or search engine companies to associate our brands and reputation with technology or to promote our new solutions, 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

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recognition or promote our solutions, or if we incur excessive expenses in this effort, our business and growth prospects may be materially and adversely affected.

We may be subject to complex and evolving laws and regulations regarding privacy and data protection. Actual or alleged failure to comply with privacy and data protection laws and regulations could damage our reputation, deter current and potential customers from using our solutions 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. Particularly in China, where we operate all our businesses, the PRC government has enacted a series of laws and regulations on the protection of personal data in the past few years. When conducting our business, we may have access to certain data of the end-users of our customers and therefore are subject to the privacy and data protection laws and regulations.

On December 28, 2021, the CAC published the Measures for Cyber Security Review, which further restates and expands the applicable scope of the cybersecurity review. Pursuant to the Measures for Cyber Security Review, if an Internet platform 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. Although the Measures for Cyber Security Review provides no further explanation or interpretation for “foreign” listing, the PRC Legal Advisor is of the view that we do not need to apply for a cybersecurity review pursuant to the above regulation, given that (i) we are not in possession of personal information of over one million users; (ii) as of the date of the Document, the Group has not received any notice or determination from applicable PRC governmental authorities identifying it as a critical information infrastructure operator. On November 14, 2021, the CAC published the Draft Regulation, 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 [REDACTED] pursuant to such draft measures. As of the Latest Practicable Date, these above two draft measures have not been formally adopted.

We have adopted various measures, including Board and management supervision and information access control, to ensure legal compliance. See “Business—Data Privacy and Protection” for details. As confirmed by our PRC Legal Advisor, during the Track Record Period and up to the Latest Practicable Date, we are in compliance with applicable PRC laws and regulations with respect to privacy and personal data protection in all material aspects. 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 current and potential customers from using our solutions and could subject us to significant legal, financial and operational consequences.

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Our business processes a large amount of business and operation data, and the improper collection, hosting, use or disclosure of such data could harm our reputation and have a material adverse effect on our business and prospects.

Our business processes massive volumes of business and operation data, such as photos, videos and encrypted transaction data. This makes us an attractive target of, and potentially vulnerable to, cyber-attacks, computer viruses, physical or electronic break-ins or similar disruptions.

We face certain challenges and risks inherent to handling and protecting a large volume of data, including confidential, sensitive data and information, including but not limited to:

- protecting the data in and hosted on our system, including against attacks on our system by outside parties, data leakage or fraudulent behavior or improper use by our employees or our customers and partners;
- addressing concerns, challenges, negative publicity and litigations related to data security and privacy, collection, use and actual or perceived sharing (including sharing among our own businesses, with our customers and partners or competent regulatory authorities), safety, security and other factors that may arise from our existing businesses or new businesses and technology, such as new forms of data; and
- complying with applicable laws and regulations relating to the collection, use, storage, transfer, disclosure and security of data, including requests from data subjects and compliance requirements in accordance with applicable laws and regulations.

The improper collection, use or disclosure of business and operation data could result in a loss of customers and partners, loss of confidence or trust in our technology solutions, litigations, regulatory investigations, penalties or actions against us, significant damage to our reputation, any of which could in turn have a material adverse impact on our business, financial condition, results of operations and prospects. Our back-up systems, disaster recovery centers and deployed various technology measures to safeguard our data security may not function as we expect or could be breached. Because the technologies and mechanisms used to sabotage or obtain unauthorized access to systems change frequently and generally are not recognizable until they are launched against a target, we may be unable to anticipate for, or to implement adequate preventative measures against, such technologies and mechanisms.

Any accidental or willful security breaches or other unauthorized access could cause confidential information to be stolen and used for improper or criminal purposes. Moreover, if we fail to implement adequate encryption of data transmitted through the networks of the telecommunications and Internet operators we rely upon, there is a risk that telecommunications and Internet operators or their business partners may misappropriate the data. Security breaches or unauthorized access to confidential information could also expose us to liabilities related to the loss of the information, time-consuming and expensive litigations and other regulatory and legal proceedings, as well as negative publicity. If security measures are breached because of third party action, employee error, malfeasance or other similar factors, or if design flaws in our technology infrastructure are exposed and exploited, our relationships with our customers and partners could be severely damaged and we could incur significant liabilities or subject to legal or regulatory actions that may materially and adversely affect our business, financial condition, results of operations and prospects. In addition, concerns about our practices with regard to security of confidential information or other privacy-related matters, such as cybersecurity breaches, misuse of personal data and data sharing without necessary safeguards, even if

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unfounded, could damage our reputation and operating results. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material incidents of cyberattacks or data security breaches. However, if any of the foregoing risks materializes, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We face ethical and reputational risks associated with the use of our AI technology and AI-powered algorithms.

As with many developing technologies, AI presents risks and challenges that could affect its further development, adoption, and use, and therefore our business. As our business expand and continuously invest in R&D activities, our application of AI technology and AI powered algorithms may produce biased analysis and discrimination against inquiry subjects in certain stereotypes, such as unequal risk scoring based on racial or cultural background or gender. If the recommendations, forecasts, or analysis that AI applications assist in producing are deficient or inaccurate, we could be subjected to competitive harm, potential legal liability, and ethical or reputational harm. Some of our AI solutions such as data governance and automated management, may present ethical issues. If the AI solutions we offer in the future are controversial because of their purported or real impact on human rights, privacy, employment, or other social issues, we may experience ethical or reputational harm and negative corporate social responsibility record and regulatory compliance issues.

If the data we process are out of date, inaccurate or lacking credible information, we may not be able to provide quality services for our customers, which could adversely impact our business.

We have access to data from our customers and third-party data partners, namely, on-site collected data by our customers or us with direct authorization and data labeled by third-party service providers. See “Business—Procurement of Data Labeling Services.” We synthesize these multiple sources of data with our big data analytics capabilities. The information available to us, customers and third-party data partners may be limited. We cannot ensure the accuracy and timeliness of the various sources of data that we use. For example, our data labels may be out of date, inaccurate or lacking credible information. Low quality and inaccurate data could materially affect the accuracy and validity of our data analytical capability, products and services which could adversely affect our reputation, business operations and financial performance.

Our use of open source technology could impose limitations on our business operations.

We use open source software in some of our platform and expect to continue to use open source software in the future. Although we monitor our use of open source software to avoid subjecting our software to conditions we do not intend, we may face allegations from others alleging ownership of, or seeking to enforce the terms of, an open source license, including by demanding release of the open source software, derivative works, or our proprietary source code that was developed using such software. These allegations could also result in litigation. The terms of many open source licenses have not been interpreted by courts. There is a risk that these licenses could be construed in a way that could impose unanticipated conditions or restrictions on our ability to commercialize our software and platform. In such an event, we may be required to seek licenses from third parties to continue commercially offering our software, to make our proprietary code generally available in source code form, to re-engineer our software or to discontinue the sale of our software if re-engineering could not be accomplished on a timely basis, any of which could adversely affect our business and revenue.

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The use of open source software subjects us to a number of other risks and challenges. Open source software is subject to further development or modification by anyone. Others may develop such software to be competitive with, or render such software no longer useful by, us. It is also possible for competitors to develop their own products and services using open source software, potentially reducing the demand for our products and services. If we are unable to successfully address these challenges, our business and operating results may be adversely affected, and our development costs may increase.

Our services and internal systems rely on software programs that are highly complex and technical, and if they contain undetected errors, our business could be adversely affected.

Our services and internal systems rely on software programs that are highly complex and technical. In addition, our services and internal software programs to store, retrieve, process and manage immense amounts of data. The software programs on which we rely may contain undetected errors or bugs. Some errors may only be discovered after the code has been released for external or internal use. Errors or other design defects within the software programs on which we rely may result in a negative experience for users and customers, delay introductions of new features or enhancements, result in errors or compromise our ability to protect data or our intellectual property. If any of the above occurs, our business, results of operations and financial condition may be adversely affected.

Failure to maintain or improve the reliability, performance and availability of our technology capacities, solutions and infrastructures may materially and adversely affect our business, financial condition, results of operations and prospects.

The satisfactory performance, reliability and availability of our solutions and underlying technologies and infrastructures are critical to our operations, customer service, reputation and our ability to retain existing customers and partners and to attract new ones. Our solutions are subject to unanticipated failures or disruptions, which results in various operational risks, such as improper information processing, slower response time, and substandard user experience. If we fail to properly and accurately process and manage all such information, the quality of our solutions may be compromised, which will have an adverse impact on our reputation, financial condition and results of operations. In addition, we rely on certain proprietary technology and third-party services to store, retrieve, process and manage immense amounts of data for our operations. Such services on which we rely may contain undetected errors or bugs. If we are unable to maintain and constantly improve our technology infrastructure and to properly handle technological failures or disruptions, our business, financial condition, results of operations and prospects, as well as our reputation, may be materially and adversely affected.

In the event of data outage or loss, our ability to offer AI solutions may be materially and adversely affected. Our operations depend on our ability to protect our systems against damage or interruption from natural disasters, power or telecommunications failures, environmental conditions, computer viruses or other attempts to harm our systems, criminal acts and similar events. In addition, if there is a lapse in service or damage to our leased facilities, we could experience business interruptions as well as delays and additional expenses in arranging new facilities, which could harm our relationships with stakeholders of our ecosystem, and our business, financial condition, results of operations and 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 technologies and knowhow. Although we enter into employment agreements with confidentiality, non-compete covenants and intellectual property ownership clauses with our employees, 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.

Unauthorized use of our intellectual properties by third parties may harm our brands and reputation, and the expenses incurred in protecting our intellectual property rights may materially and adversely affect our business.

We regard our patents, software copyrights, trademarks and other intellectual properties as critical to our success and 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. Although our contracts with our business partners prohibit the unauthorized use of our brands, images, characters and other intellectual property rights, we cannot assure you that they will always comply with these terms. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, third parties may independently discover trade secrets and proprietary information, limiting our ability to assert any trade secret rights against such parties.

Implementation of intellectual property laws in China has historically been lacking, primarily because of ambiguities in the laws and difficulties in enforcement. Accordingly, intellectual property right protection in China may not be as effective as in other jurisdictions with a more developed legal framework regulating intellectual property rights. Policing unauthorized use of our proprietary technology, trademarks and other intellectual property is difficult and expensive, and litigation may be necessary 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.

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 patents, trademarks, software copyrights or other intellectual property rights held by third parties. We cannot assure you that holders of patents purportedly relating to some aspect of our technology infrastructure or business, if any such holders exist, would not seek to enforce such patents against us in China or any other jurisdictions. Further, the application and interpretation of China’s patent laws and the procedures and standards for granting patents in China are still evolving and uncertain, and we cannot assure you that PRC courts or regulatory authorities would agree with our analysis. 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

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intellectual property, and we may incur licensing fees or be forced to develop alternatives of our own. Defending against such infringement or licensing allegations and claims is 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 and results of operations could be materially and adversely affected.

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

We face various risks in connection with our business, and may lack adequate insurance coverage or have no relevant insurance coverage. In line with general market practice, we do not maintain any business interruption insurance or product liability insurance, which are not mandatory under PRC laws. We do not maintain keyman life insurance, insurance policies covering damages to our network infrastructures or information technology systems or any insurance policies for our properties. We have determined that the costs of insuring against these risks, and the difficulties associated with acquiring such insurance on commercially reasonable terms render such insurance impractical for our business and purposes. However, any uninsured business disruptions may result in our incurring substantial costs and the diversion of resources, which could have an adverse effect on our business and results of operations.

Misconducts and omissions by our employees or business partners could harm our business and reputation.

Misconducts 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.

Misconducts and omissions by our business partners could subject us to disruption of business, negative publicity or liability. Although we have strict standards to choose our business partners, we cannot assure you our business partners will not engage in misconducts or omissions. Any misconduct or omission by our business partners involved in our business may affect our business activities and reputation, which may in turn affect our business, results of operations and financial condition.

Non-compliance on the part of third parties involved in our business could adversely affect our business.

Our business partners, including our various suppliers and customers, as well as other third parties who have entered into business relationships with our business partners, may be subject to regulatory penalties or punishments because of their regulatory compliance failures, which may,

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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 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 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 sometimes 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 “—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.

Our Directors have 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 solutions, our business and financial conditions could be materially and adversely affected. Further, such an outcome could result in significant compensatory, punitive or trebled 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.

We require various approvals, licenses, permits and certifications to operate our business, any failure to obtain or renew any of these approvals, licenses, permits or certifications could materially and adversely affect our business and results of operations.

In accordance with the laws and regulations in the jurisdictions in which we operate, we are required to maintain various approvals, licenses, permits and certifications in order to operate our

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business. Complying with such laws and regulations may require substantial expense, and any non-compliance may expose us to liability. We have designed and adopted strict internal procedures to ensure compliance of our business operations with all relevant laws and regulations, and to ensure that we obtain necessary approvals, licenses, permits and certifications for our business operations. However, we cannot guarantee that we will be able to obtain all requisite approvals, licenses, permits and certifications. Regulatory authorities who have extensive authority to supervise and regulate the industry we operate in may not interpret relevant laws and regulations the way we do. In addition, as the regulatory regime for the industries in which we operate continue to evolve, new laws, regulations and regulatory requirements are promulgated and implemented from time to time, and the interpretation and application of existing laws, regulations and regulatory requirements are subject to changes.

We may be required to obtain approvals, licenses, permits and certifications that we do not currently have for our existing business or new scope of business that we may expand into in the future. In the event of non-compliance, we may have to incur significant expenses and divert substantial management time to rectify the incidents. In the future, If we fail to obtain all the necessary approvals, licenses, permits and certifications required by relevant laws and regulations or if we are deemed to have conducted business operations requesting certain approvals, licenses, permits and certifications without having one, we may be subject to fines or the suspension of operations of the relevant business segments or facilities that do not have all the requisite approvals, licenses, permits and certifications, which could materially and adversely affect our business and results of operations. See “Regulatory Overview” of this document for further details on the requisite approvals, licenses, permits and certifications for business operations. We may also experience adverse publicity arising from non-compliance with government regulations, which would negatively impact our reputation.

We are subject to credit risk related to defaults of customers, and any significant 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 defaults of our various customers. As of December 31, 2018, 2019, 2020 and September 30, 2021, our trade and notes receivables were RMB16.2 million, RMB120.7 million, RMB189.6 million and RMB296.4 million, respectively. The increase was primarily due to the significant growth of our business during the Track Record Period. Our trade and notes receivables turnover days were 76, 115, 135 and 137 in 2018, 2019, 2020 and the nine months ended September 30, 2021, respectively. See “Financial Information—Discussion of Key Items of Consolidated Statements of Financial Position—Trade and Notes Receivables” for more information. Although we have adopted a series of strict management measures, we may not be able to collect all such trade receivables due to a variety of factors that are outside of our control. If the relationship between us and any of our customers is terminated or deteriorated, or if any of our customers experience financial difficulties in settling the trade receivables, our corresponding trade receivables might be adversely affected in terms of recoverability. Our trade receivables balance may continue to grow alongside our business expansion, which may increase our risks for uncollectible receivables. If we are unable to collect our trade receivables from our customers, our business, financial condition and results of operation may be materially and adversely affected.

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We are subject to anti-corruption, anti-money laundering, anti-bribery and other relevant laws and regulations.

We are subject to anti-corruption, anti-money laundering, anti-bribery and other relevant laws and regulations in China. We may be subject to investigations and proceedings by PRC 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.

The COVID-19 pandemic presents challenges to our business and the effects of the pandemic could adversely affect our business, financial condition and results of operations.

Beginning from December 2019, a novel strain of coronavirus, or the COVID-19, resulted in prolonged mandatory quarantines, lockdown, closures of businesses and facilities and travel restrictions imposed by the Chinese government and other countries around the world. The COVID-19 pandemic, as well as the restrictions imposed and actions taken by the governments and society as a whole in response to the COVID-19 pandemic, could present significant challenges and uncertainties. Although the Chinese economy has been recovering steadily from the impact of COVID-19 since the second half of 2020, any recurrence of the COVID-19 outbreak in China, such as the recurrence of COVID-19 around the end of 2020 and in 2021, or continuance of the outbreak in other parts of the world could adversely impact our business operations or the business operations of our customers and partners thus in turn having an adverse impact on our business, results of operations and financial condition.

Our business operations could be disrupted if any of our employees is suspected of having these or any other epidemic disease, since it could require our employees to be quarantined and/or our offices to be closed for disinfection or other remedial measures. There remain substantial uncertainties about the dynamic of the COVID-19 pandemic, which may have potential continuing impacts on subsequent periods if the pandemic and the resulting disruption were to extend over a prolonged period. To the extent the global spread of COVID-19 and deterioration cannot be contained, the risks and uncertainties set forth in this document may be exacerbated or accelerated at a heightened level. For more detailed discussion of the impact of COVID-19 on our business operations, see “Financial Information – Impact of COVID-19”.

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

During the Track Record Period, we enjoyed preferential tax treatment under relevant preferential tax policies. In particular, AInnovation (Beijing) Technology Co., Ltd. had been recognized as the “High and New Technology Enterprise” in 2019. AInnovation (Guangzhou) Technology Co., Ltd., AInnovation (Hefei) Technology Co., Ltd. and AInnovation (Chongqing) Technology Co., Ltd., had been recognized as the “High New Tech Enterprise” in 2020. According to the tax incentives of the EIT Law for “High and New Tech Enterprise”, these companies are subject to

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a reduced EIT rate of 15% for three years commencing from the year these companies are recognized as “High New Tech Enterprise”. Such preferential tax treatments are subject to change and termination. Government agencies may decide to reduce, eliminate or cancel our tax preferences at any time. Therefore, we cannot assure you of the continued availability of such tax preferences as we currently enjoy. The discontinuation, reduction or delay of the preferential tax treatment could adversely affect our financial condition and results of operations.

We also receive government grants, primarily in the form of nonrecurring financial assistance from the local government in China. Our government grants amounted to RMB6.9 million, RMB27.1 million, RMB35.0 million RMB14.4 million in 2018, 2019, 2020 and the nine months ended September 30, 2021, respectively. See “Financial Information—Description of Major Components of Our Results of Operations—Other Income.” As these government grants are provided typically on a one-off basis, there is no guarantee that we will continue receiving or benefiting from them in the future. In some cases, we are required to satisfy certain conditions or contractual obligations before receiving government grants. However, there can be no assurance that we will be able to fully satisfy these conditions or perform such obligations, and it is possible that governmental authorities may discontinue such grants, or require us to repay part or all of the government grants we previously received. Any reduction, cancellation, or repayment resulting from our failure to perform such obligations could adversely affect our business, financial condition and results of operations.

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

As of the Latest Practicable Date, we did not own any property, and operated our businesses mainly through leased properties. We cannot assure you that we are able to renew our lease on commercially acceptable terms upon expiry, or at all. If the title of any of our leased properties is controversial or impaired, or the validity of the relevant lease is challenged by any third party, or if we fail to renew our lease upon expiry, we may be compelled to relocate from the affected premises. Such relocation may result in additional expenses or business interruption, which could, in turn, have an adverse effect on our business, financial condition and results of operations.

As of the Latest Practicable Date, the lessor of three of our leased properties had not provided us with valid title certificates, relevant authorization documents or permissions evidencing the right to lease the property to us. As a result, the lease may not be valid, and we may not be able to continue to use such property if the lessor’s right to lease such property is challenged by any third party. For further information, see “Business—Properties”.

As of the Latest Practicable Date, the actual usage of two leased properties was inconsistent with the usage set out in such title certificates or relevant authorization documents. There is a risk that we may not be able to lease, occupy and use such leased properties if the lease was challenged by any interested party or if the lessor was penalized by the competent government authority.

As of the Latest Practicable Date, one of our leased properties is located on allocated land and the use of such leased property is not consistent with the designated use of land stated on the ownership certificate provided by the owner. There is a risk that we may not be able to continue to use such properties.

As of the Latest Practicable Date, 11 of our leased properties had not been registered with the competent PRC government authorities as required by applicable PRC laws and regulations. Although

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we will take all practicable and reasonable steps to request the lessors of such properties to cooperate with us to complete the registration in a timely manner, we cannot assure you that such lessors will do so. Our PRC Legal Advisor has advised us that the lack of registration of the lease agreements will not affect the validity of the lease agreements under PRC laws, but we may have a maximum penalty of RMB10,000 imposed on us for each non-registered lease if we fail to complete the lease registration after we are requested to do so by the competent PRC government authorities. For details, see “Business—Properties”.

RISKS RELATING TO DOING BUSINESS IN THE PRC

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

All of our revenue is derived from our businesses in the PRC. Accordingly, our financial condition, results of operations and prospects are, to a material extent, subject to economic, political, and legal developments in the PRC. The PRC economy differs from the economies of developed countries in many respects, including, among other things, the degree of government involvement, control of investment, level of economic development, growth rate, foreign exchange controls, and resource allocation. Although China has been one of the world’s fastest growing economies in recent years as measured by GDP, such growth may not be sustainable in the future. The PRC Government has implemented various measures to encourage economic growth and guide the allocation of resources, but some of these measures, such as the introduction of measures to control consumer prices, or reduce growth, changes in the rates or methods of taxation, or the imposition of additional restrictions on currency conversion and remittances abroad, may lead to changes in overall market conditions and the industry verticals we operate in and could materially and adversely affect our business, financial condition and results of operations. If the PRC economy experiences significant adverse changes due to any of the foregoing reasons, demand for our products and our ability to maintain our operations may suffer, which will consequently have a material adverse effect on our financial condition, results of operations and our future prospects.

The interpretation and enforcement of PRC laws and regulations involve significant uncertainties and PRC laws differ from the laws of common law jurisdictions.

Our operations are principally governed by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be cited as references. Since the late 1970s, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as corporate organization and governance, commerce, taxation and trade. However, as many of these laws and regulations are relatively new, and due to the limited number of published cases and judicial interpretations and their lack of precedential value, enforcement of these laws and regulations involve significant uncertainties.

Furthermore, certain important aspects of the PRC Company Law are different from the corporate laws of common law jurisdictions such as Hong Kong and the United States, particularly with respect to investor protection (such as shareholder class action suits and measures protecting non-controlling shareholders), restrictions on directors, disclosure requirements, different rights of classes of shareholders, general meeting procedures and disbursement of dividends. Our Articles of Association include provisions in accordance with the Listing Rules. However, such provisions having

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been included, we cannot assure you that no discrepancy exists between the protections given to our investors and those given to investors in companies formed in common law jurisdictions.

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

Our business depends on the performance and reliability of the Internet infrastructure in China. Almost all access to the Internet is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the Ministry of Industry and Information Technology of China. In addition, the national networks in China are connected to the Internet through state-owned international gateways, which are the only channels through which a domestic user can connect to the Internet outside of China. We may not have access to alternative networks in the event of disruptions, failures or other problems with China’s Internet infrastructure. In addition, the Internet infrastructure in China may not support the demands associated with continued growth in Internet usage.

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

The PRC government’s control over foreign currency conversion may limit our foreign exchange transactions.

Currently, the Renminbi cannot be freely converted into any foreign currency, and the conversion rate and remittance of foreign currencies are subject to PRC foreign exchange regulations. We cannot assure you that we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within the PRC that have the requisite licenses to conduct foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by SAFE. If we fail to obtain approval from SAFE to convert Renminbi into any foreign currency for business purposes, our capital expenditure plans and our business, operating results and financial position may be materially and adversely affected.

Payment of dividends is subject to restrictions under PRC law.

Under PRC law, dividends may be paid only out of distributable profit. Distributable profit is our profit as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profit to enable us to make dividend distributions to our Shareholders, including in years in which we are profitable. Any distributable profit not distributed in a given year is retained and available for distribution in subsequent years.

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In addition, we are required to comply with the dividend distribution rules prescribed by the PRC regulatory authorities when determining our dividend payout ratios. The PRC regulatory authorities may further amend the dividend distribution rules for listed companies in the future, which could significantly affect the amount of capital available to support the development and growth of our business.

Moreover, as the calculation of distributable profits under PRC GAAP is different from the calculation under IFRS in certain respects, our subsidiaries may not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under IFRS, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries. Failure by our subsidiaries to pay dividends to us could have a negative impact on our cash flows and our ability to make dividend distributions to our Shareholders in the future, including those periods in which our financial statements indicate that our operations have been profitable.

You may experience difficulties in effecting service of legal process or enforcing foreign judgments against us and our management.

We are incorporated under the laws of the PRC and all of our business and operations are located in the PRC. In addition, most of our directors, supervisors and officers reside in the PRC and substantially all of their assets are located in the PRC. It may be difficult for investors to effect service of process upon those persons residing in China or to enforce against us or them in China any judgments obtained from non-PRC courts. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan and many other countries. As a result, recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions may be difficult or even impossible.

On July 14, 2006, the Supreme People’s Court of the PRC and the Government of the Hong Kong Special Administrative Region signed an Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters (《最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the “Arrangement”). Under the Arrangement, a party with an enforceable final court judgment rendered by any designated people’s court of China or any designated Hong Kong court requiring payment of money in a civil and commercial case according to a written choice of court agreement, may apply for recognition and enforcement of the judgment in the relevant people’s court of China or Hong Kong court. A written choice of court agreement is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a Chinese court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it may not be possible to enforce a judgment rendered by a Hong Kong court in China if the parties in the dispute did not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to effect service of process against certain of our assets or Directors in China in order to seek recognition and enforcement of foreign judgments in China. Although the Arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the Arrangement remains uncertain.

On January 18, 2019, the Supreme People’s Court of the PRC and Department of Justice of Hong Kong entered into an agreement regarding the scope of judgments which may be enforced between China and Hong Kong (《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 “New Arrangement”). The New Arrangement will broaden the scope of judgments that

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may be enforced between China and Hong Kong under the Arrangement. Whereas a choice of jurisdiction need to be agreed in writing in the form of an agreement between the parties for the selected jurisdiction to have exclusive jurisdiction over a matter under the Arrangement, the New Arrangement provides that the court where the judgment was sought could apply jurisdiction in accordance with the certain rules without the parties’ agreement. The New Arrangement will replace the Arrangement when the former becomes effective. However, as at the Latest Practicable Date, the New Arrangement has not become effective and no specific date has been determined as its effective date. We cannot assure you that any action brought in China by holders of H Shares to enforce a Hong Kong arbitration award made in favor of holders of H Shares would succeed.

Furthermore, although we will be subject to the Listing Rules and the Takeovers Code upon the [REDACTED] of our H Shares on the Stock Exchange, the holders of H Shares will not be able to bring actions on the basis of violations of the Listing Rules and must rely on the Stock Exchange to enforce its rules. Moreover, the Takeovers Code do not have the force of law and provide only standards of commercial conduct considered acceptable for takeover and merger transactions and share repurchases in Hong Kong.

Disputes between holders of H Shares and us, our Directors, Supervisors, senior officers or holders of non-listed shares, arising out of our Articles of Association or the rights or obligations conferred or imposed upon by the PRC Company Law and related rules and regulations concerning our affairs, including the transfer of our H Shares, are to be resolved through arbitration rather than by a court of law. A claimant may elect to submit a dispute to arbitration organizations in Hong Kong or in China. Awards that are made by the PRC arbitral authorities recognized under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong. Hong Kong arbitration awards may be recognized and enforced by PRC courts, subject to the satisfaction of certain PRC legal requirements. However, we cannot assure you that any action brought in China by any holder of H Shares to enforce a Hong Kong arbitral award made in favor of holders of H Shares would succeed.

Holders of H Shares may be subject to PRC taxation.

Non-PRC resident individuals and non-PRC resident enterprises are subject to different tax obligations with respect to dividends received from us or gains realized upon the sale or other disposition of our H Shares in accordance with applicable PRC tax laws, rules and regulations.

Pursuant to the PRC Individual Income Tax Law (中華人民共和國個人所得稅法), non-PRC resident individuals are subject to a 20% PRC individual income tax on their dividend income derived from the PRC and we are required to withhold such tax from our dividend payments. If there is an applicable tax treaty to avoid double taxation and taxation evasion between China and the jurisdiction where the foreign individual resides, the applicable tax rate shall be determined in accordance with such tax treaty. Considering that the applicable tax rate on dividends is usually 10% according to tax treaties or tax agreements and that the number of stockholders is large for a listed company, to simplify the tax administration, generally a domestic non-foreign-investment enterprise with shares listed in Hong Kong can withhold dividend income tax at a rate of 10%. There remains uncertainty as to whether gains realized by non-PRC resident individuals on disposition of H Shares are subject to PRC individual income tax.

Pursuant to the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) and other applicable PRC tax rules and regulations, non-PRC resident enterprises that do not have establishments

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or premises in the PRC, or have establishments or premises in the PRC but their income is not related to such establishments or premises are subject to a 10% PRC enterprise income tax rate on dividend income received from a PRC company and gains realized upon the sale or other dispositions of equity interest in a PRC company. The 10% tax rate is subject to reduction under any special arrangements or applicable treaties between China and the jurisdiction where the non-resident enterprise domiciles.

There remains substantial uncertainty as to the interpretation and implementation of the PRC EIT Law and other applicable PRC tax rules and regulations by the PRC tax authorities, including whether and how non-PRC resident H shareholders are subject to enterprise income tax rate on gains realized upon the sale or other dispositions of their H shares. In addition, the value of your investment in our H Shares may be materially affected by unfavorable changes in the applicable tax rates currently stipulated by the PRC tax authorities.

For additional information, see “Taxation and Foreign Exchange” in Appendix IV to this document.

Any failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties.

Companies operating in the PRC are required to participate in various employee benefit plans, including pension insurance, unemployment insurance, medical insurance, work-related injury insurance, maternity insurance and housing provident fund and contribute to the amounts equal to certain percentage of salaries, including bonuses and allowances, of their employees up to a maximum amount specified by the local government from time to time at locations where they operate their business. The requirement of employee benefit plans has not been implemented consistently by the local governments in China given the different levels of economic development in different locations.

As advised by our PRC Legal Advisor, we were in compliance with applicable laws and regulations related to social insurance and housing provident funds in material aspects during the Track Record Period. However, we cannot assure you that any new laws and regulations will not require us to pay any contribution shortfall retroactively, thereby adversely affecting our financial condition and results of operations.

RISKS RELATING TO THE [REDACTED]

There has been no prior public market for our H Shares, and their liquidity and market price may be volatile.

Prior to the [REDACTED], there was no public market for our H Shares. We cannot assure you that a public market for our H Shares with adequate liquidity and trading volume will develop and be sustained following the completion of [REDACTED]. In addition, the [REDACTED] of our H Shares is expected to be fixed by agreement between the [REDACTED] and us, and may not be an indication of the market price of our H Shares following the completion of the [REDACTED]. If an active public market for our H Shares does not develop following the completion of [REDACTED], the market price and liquidity of our H Shares could be materially and adversely affected.

The price and trading volume of our H Shares may be highly volatile. Several factors, some of which are beyond our control, such as variations in our results of operations, changes in our pricing policy, the emergence of new technologies, strategic alliances or acquisitions, the addition or departure

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of key personnel, changes in profit forecast or recommendations by financial analysts, changes in ratings by credit rating agencies, litigation or the removal of the restrictions on share transactions, could cause large and sudden changes to the volume and price at which our H Shares will trade.

In addition, the Hong Kong Stock Exchange and other securities markets have, from time to time, experienced significant price and volume volatility that is not related to the operating performance of any particular company.

Holders of our H Shares are subject to the risk that the price of our H Shares could fall during the period before trading of our H Shares begins.

The [REDACTED] of our H Shares is expected to be determined on the [REDACTED]. However, our H Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be several business days after the pricing date. As a result, investors may not be able to sell or deal in our H Shares during that period. The price and trading volume of the H Shares may be highly volatile. Factors such as variations in our revenue, net profit and cash flows and announcements of new investments, strategic alliances and acquisitions, fluctuations in market prices for our products or fluctuations in market prices for other soft beverage companies could cause the market price of our H Shares to change substantially. Any such developments may result in significant and sudden changes in the volume and price at which our H Shares will trade. We cannot assure you that these developments will not occur in the future. Accordingly, holders of our H Shares are subject to the risk that the price of our H Shares could fall before trading begins as a result of adverse market conditions or other adverse developments, which could occur between the time of sale and the time trading begins.

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

Future sales of a significant number of our H Shares by the Shareholders in the public market after the [REDACTED], or the perception that these sales could occur, could cause the market price of our H Shares to decline and could materially impair our future ability to raise capital through offerings of our H Shares. We cannot assure you that our Shareholders will not dispose of H Shares held by them or that we will not issue H Shares pursuant to the general mandate to issue shares which may be granted to our Directors as described in “Appendix V—Summary of Principal Legal and Regulatory Provisions”, upon the expiration of relevant restrictions. We are currently applying for the Company’s Domestic Shares and Unlisted Foreign Shares to circulate on the Hong Kong Stock Exchange after the completion of the [REDACTED]. The Shares issued by the Company prior to the [REDACTED] are restricted from trading within one year from the [REDACTED] according to the Company Law, or a longer period pursuant to the Shareholders’ Agreement. Such restriction from trading will limit the number of H Shares to be circulated on the market, which will in turn adversely affect the liquidity of the H Shares during such restriction period. If our application for the circulation of our relevant Domestic Shares and Unlisted Foreign Shares on the Hong Kong Stock Exchange after the completion of the [REDACTED] is successful, any future sales (after the expiration of the restrictions set out above) of such Shares by relevant Shareholders in the public market may affect the market price of the H Shares. We cannot predict the effect, if any, that any future sales of Shares by our Shareholders, or the Shares available for sale by our Shareholders, or the issuance of Shares by the Company may have on the market price of the H Shares. Sale or issuance of a substantial amount of Shares by our Shareholders or us, or the market perception that such sale or issuance may occur, could materially and adversely affect the prevailing market price of the H Shares.

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We may need additional capital, and the sale or issue of additional H Shares or other equity securities could result in additional dilution to our Shareholders.

Notwithstanding our current cash and cash equivalents and the net [REDACTED] from the [REDACTED], we may require additional cash resources to finance our continued growth or other future developments. We cannot assure you that financing will be available in the amounts or on terms acceptable to us, if at all. If we fail to raise additional funds, we may need to sell additional equity securities, which could result in additional dilution to our Shareholders.

As the [REDACTED] of our H Shares is higher than our consolidated net tangible book value per Share, purchasers of our H Shares in the [REDACTED] may experience immediate dilution upon such purchases.

As the [REDACTED] of our H Shares is higher than the consolidated net tangible assets per Share immediately prior to the [REDACTED], purchasers of our H Shares in the [REDACTED] may experience an immediate dilution. Our existing Shareholders will receive an increase in the [REDACTED] adjusted consolidated net tangible asset value per Share of their H Shares. In addition, holders of our H Shares may experience further dilution of their interest if we issue additional H Shares in the future to raise additional capital.

We cannot assure you whether and when we will declare and pay dividends in the future.

Our ability to pay dividends will depend on whether we are able to generate sufficient earnings. Distribution of dividends shall be decided by our Board of Directors at their discretion and will be subject to the approval of the general meeting. A decision to declare or to pay dividends and the amount thereof depend on various factors, including but not limited to our results of operations, cash flows and financial position, operating and capital expenditure requirements, distributable profits as determined under PRC GAAP or IFRS (whichever is lower), our Articles of Association and other constitutional documents, the PRC Company Law and any other applicable PRC laws and regulations, market conditions, our strategy and projection for our business, contractual restrictions and obligations, taxation, regulatory restrictions and any other factors from time to time deemed by our Board of Directors as relevant to the declaration or suspension of dividends. As a result, there can be no assurance whether, when and in what form we will pay dividends in the future. Subject to any of the above constraints, we may not be able to pay dividends in accordance with our dividend policy. See “Financial Information—Dividends.”

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

Certain statistics contained in this document relating to China, the PRC economy and the industry in which we operate have been derived from various official government publications or reports. We have taken reasonable care in the reproduction or extraction of the official government publications or reports for the purpose of disclosure in this document, however, we cannot assure you that the quality or reliability of such source materials. They have not been prepared or independently verified by us, the [REDACTED] or any of their respective affiliates or advisors and, therefore, we make no representation as to the accuracy of such statistics from these official government sources, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, such statistics from these official government sources in this document may be inaccurate

or

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may not be comparable to statistics produced with respect to other economies. Further, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as the case may be in other jurisdictions. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts.

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

This document contains certain statements and information that are forward-looking and uses forward-looking terminology such as “believe,” “expect,” “estimate,” “predict,” “aim,” “intend,” “will,” “may,” “plan,” “consider,” “anticipate,” “seek,” “should,” “could,” “would,” “continue,” and other similar expressions. You are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this document should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. Subject to the requirements of the Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this document are qualified by reference to this cautionary statement.

Investors should read the entire document carefully and should not consider any particular statements in this document or in published media reports without carefully considering the risks and other information contained in this document.

Prior to the publication of this document, there has been coverage in the media regarding us and the [REDACTED], which contained among other things, certain financial information, projections, valuations and other forward-looking information about us and the [REDACTED]. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for the accuracy or completeness of such media coverage or forward-looking statements. We make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. We disclaim any information in the media to the extent that such information is inconsistent or conflicts with the information contained in this document. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this document only and should not rely on any other information.