An [**REDACTED**] *in our H Shares involves significant risks. You should carefully consider all of the information in this Document, including the risks and uncertainties described below, as well as our financial statements and the related notes, and the "Financial Information" section, before deciding to* [**REDACTED**] *in our H Shares. The following is a description of what we consider to be our material risks. Any of the following risks could have a material adverse effect on our business, financial condition, results of operations and growth prospects. In any such event, the market price of our H Shares could decline, and you may lose all or part of your* [**REDACTED**].

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 the section headed "Forward-Looking Statements" in this Document.

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

AI technologies are constantly evolving. Any flaws or inappropriate usage of 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.

AI technologies are constantly evolving. To remain competitive in the AI industry, we must continue to stay abreast of rapid technological developments and continuously evolving industry trends. We have invested significantly in our research and development and made other efforts in response to these constant changes, but we can make no assurance that these efforts will generate our expected return, or any return at all. Failure to cope with rapid development of AI technologies may materially and adversely affect our business, financial condition and results of operations.

AI technologies are still at a preliminary stage of development and will continue to evolve. Flaws or deficiencies in AI technologies could undermine the accuracy and thoroughness of the analysis and decisions made by our solutions. 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. If the recommendations, forecasts or analysis that our AI solutions assist in producing are deficient or inaccurate, we could be subjected to competitive harm, potential legal liability, and ethical or reputational harm. Any flaws or deficiencies in our AI technologies and solutions, whether actual or perceived, could materially and adversely affect our business, reputation, results of operations and prospects.

Similar to many disruptive innovations, AI technologies present risks and challenges that could affect user perception and public opinion. 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 users from adopting AI solutions, may impair the general acceptance of AI solutions by the society, attract negative publicity and adversely impact our reputation. It may even violate applicable laws and regulations in China and other jurisdictions and subject us to legal or administrative proceedings, pressures from activists and/or other organizations and heightened scrutiny by regulators. Each of the foregoing events may in turn materially and adversely affect our business, financial condition and results of operations.

We have recorded net losses, net liabilities and operating cash outflow during the Track Record Period and recorded net current liabilities as of March 31, 2023, and we may not be able to achieve or subsequently maintain profitability.

In 2020, 2021, 2022 and the three months ended March 31, 2022 and 2023, we recorded net losses of RMB750.2 million, RMB1,802.1 million, RMB1,653.4 million, RMB268.2 million and RMB303.9 million, respectively. As of December 31, 2020, 2021, 2022 and March 31, 2023, we had recorded net liabilities of RMB1,183.0 million, RMB248.0 million, RMB1,461.0 million and RMB1,828.9 million, respectively. We also recorded net current liabilities of RMB3,430.1 million as of March 31, 2023. In addition, we have recorded net cash used in operating activities of RMB452.9 million, RMB770.0 million, RMB779.6 million, RMB169.4 million and RMB461.2 million in 2020, 2021, 2022 and the three months ended March 31, 2022 and 2023, respectively. We believe that our future abilities to achieve profitability and generate positive operating cashflow will depend on, among other factors, our ability to develop new technologies, enhance user experience, establish effective monetization strategies, compete effectively and successfully, and continuously grow our user base and revenues in a cost-effective way by improving our operational efficiency. Moreover, our ability to obtain additional capital in the future, however, is subject to a number of uncertainties, including those relating to our future business development, financial condition and results of operations, general market conditions for financing activities by companies in our industry and macro-economic and other conditions in China and globally. If we cannot obtain sufficient capital to meet our capital needs, we may not be able to execute our growth strategies, and our business, financial condition and prospects may be materially and adversely affected. Accordingly, you should not rely on our historical results of operations as an indication of our future performance. We also expect our costs and expenses to significantly increase in future periods as we continue to expand our business and operations. In addition, we expect to incur substantial costs and expenses as a result of being a [**REDACTED**] company. If we are unable to generate adequate revenues and manage our costs and expenses, we may continue to incur significant losses in the future and our net losses may increase compared to prior years, and we may not be able to achieve or subsequently maintain profitability.

Our business depends substantially on continuing efforts of our senior management and other key personnel, as well as a competent pool of talents who 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 continuing efforts of our senior management, many of whom are difficult to replace. In particular, we rely on the expertise, experience and vision of our senior management, as well as other members of our senior management team. We normally enter into a four-year or non-fixed term employment contract with our senior management members. 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 technologies and solutions, and our experienced sales personnel to maintain relationships with our customers. In order to compete for talents, we may need to offer higher compensation, better training 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 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.

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

The industries in which we operate are characterized by constant changes, including rapid technological evolution, frequent introductions of new solutions, continual shifts in users 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. To remain competitive, we must continue to stay abreast of the continuously evolving industry trends and rapid technological developments. We have invested and intend to continue investing significant resources in technologies to enhance our solutions. Nevertheless, we may not be able to leverage new technologies effectively or adapt our solutions to meet user needs or emerging industry standards, and our technology approach might not align with our future development plans or even become obsolete if we are unable to adapt in a cost-effective and timely manner to changing market conditions, whether for technical, legal, financial or other reasons. Our success will depend partially on our ability to continuously identify, develop, acquire, protect or license advanced and new technologies that are valuable to our solutions and services. Failure to do so could render our existing solutions and services obsolete and unappealing, thereby adversely affecting our business prospects.

Moreover, uncertainties regarding the timing and nature of the development of AI solutions or technologies, or modifications to existing solutions or technologies, could increase our research and development expenses. Any failure to deliver effective results by our solutions could reduce the demand for our solutions, result in user dissatisfaction, and adversely affect our business, financial condition, results of operations and prospects.

We may not be able to sustain our historical growth rates, and our historical growth may not be indicative of our future growth or financial results.

We have achieved tremendous growth during the Track Record Period. Our total revenue increased by 114.2% from RMB942.2 million in 2020 to RMB2,018.4 million in 2021, and further by 52.7% to RMB3,082.6 million in 2022. Our revenue increased by 33.6% from RMB482.3 million for the three months ended March 31, 2022 to RMB644.4 million for the three months ended March 31, 2023. However, there is no assurance that we will be able to maintain our historical growth rates in future periods. Our growth rates may decline for a number of reasons, including China's overall economic growth, the ongoing digitalization of China's economy, technology development of the AI industry, accumulation of AI experts in China, awareness of enterprises to deploy AI applications, our investment in technology innovation and AI solutions, our ability to attract and retain our users, our ability to create value for users with our innovative enterprise AI solutions, our ability to manage our costs and enhance operating leverage. We cannot assure you that we will be able to effectively manage our growth or implement our business strategies. 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 are investing heavily in our research and development, and such investment may negatively impact our profitability in the short term and may not generate the results we expect to achieve.

Our technological capabilities and infrastructure are critical to our success. We have been investing heavily in our research and development efforts. Our research and development expenses increased from RMB565.7 million in 2020 to RMB1,249.5 million in 2021 and further to RMB1,650.0 million in 2022, representing 60.0%, 61.9% and 53.5% of our total revenues in 2020, 2021 and 2022, respectively. Our research and development expenses increased from RMB225.7 million for the three months ended March 31, 2022 to RMB241.5 million for the three months ended March 31, 2023, representing 46.8% and 37.5% of our total revenue during the same periods, respectively. The industries in which we operate are subject to rapid technological changes and are evolving quickly in terms of technological innovation. We need to invest significant resources, including financial resources, in research and development to lead technological advancement in order to make our solutions innovative and competitive in the market. As a result, we expect that our research and development expenses will continue to increase in absolute amount. We have incurred losses in the past and may not be able to achieve or subsequently maintain profitability, partially due to the significant investment in research and development. In 2020, 2021, 2022 and the three months ended

March 31, 2022 and 2023, we recorded losses of RMB750.2 million, RMB1,802.1 million, RMB1,653.4 million, RMB268.2 million and RMB303.9 million, respectively. Furthermore, research and development activities are inherently uncertain, and we might encounter practical difficulties in commercializing our research and development results. Our significant expenditures on research and development may not generate corresponding benefits. Given the fast pace with which the technology has been and will continue to develop, we may not be able to timely upgrade our technologies in an cost-effective and timely 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 research and development costs, which could result in a decline in our revenues, profitability and market share.

Our solutions are primarily not offered on a recurring subscription basis. 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.

Our ability to retain existing customers, attract new customers, as well as increase the spending by our customers depends on a number of factors, including our ability to offer more intelligent 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. Our Sage Platform and applications are primarily offered through software license and sale of SageOne, rather than on a recurring subscription basis. As a result, we may not be able to effectively retain our users after the initial sale. Our users may purchase additional licenses from us for additional computing power as they develop more AI applications for new use cases and/or increase usage in existing use cases which require more computing power on our platform. However there is no assurance that our users will repurchase from us within a short period of time, or at all. As a result, we may fail to retain our existing users. If we fail to retain existing customers or attract new customers, we may not be able to increase our revenue as quickly as we anticipate, or at all.

As we have been and will continue expanding our customer base and diversifying industry verticals that we cover, we may fail to provide users with solutions that meet their specific demands, and we may fail to provide customer support to the level expected by our users. Such failures could result in user 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 the results of operations.

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 users from using our solutions and subject us to significant legal, financial and operational consequences.

In recent years, government authorities across the world have been increasingly focusing on privacy and data protection. Particularly in China, the substantial base of our business operations, the PRC government has enacted a series of laws and regulations on the protection of personally identifiable data in the past few years. We may be subject to laws and regulations regarding privacy and data protection in China and other areas and jurisdictions. In addition, as our users expand their footprints globally, they may leverage our solutions in other countries or territories outside China and are thus required to comply with laws and regulations regarding privacy and data protection in such jurisdictions. As a result, we may be required to upgrade our solutions to help them comply with such laws and regulations. Up to the Latest Practicable Date, we had not been subject to any enquiry, investigation, notice, inspection, action or penalty from the PRC authorities or any other relevant regulatory bodies in relation to our compliance with privacy and data protection laws and regulations.

We have adopted various measures to ensure legal compliance. See "Business – Data Privacy and Security" for more information. However, the laws and regulations regarding privacy and data protection in China, as well as in other jurisdictions, 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 effectiveness of our privacy and data protection measures is also subject to system failure, interruption, inadequacy, security breaches or cyberattacks. If we are unable to comply with the then-applicable laws and regulations, or to address any privacy and data protection concerns, such actual or alleged failure could damage our reputation, deter current and potential users from using our solutions and could subject us to significant legal, financial and operational consequences.

On June 10, 2021, the Standing Committee of the National People's Congress of China promulgated the PRC Data Security Law, which has become effective on 1 September 2021. The PRC Data Security Law provides for data security obligations on entities and individuals carrying out data processing activities, introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, as well as the degree of harm it will cause to national security, public interests or legitimate rights and interests of individuals or organizations when such data is tampered with, destroyed, leaked, or illegally acquired or used, and provides for a national security review procedure for those data processing activities which may affect national security and imposes export restrictions on certain data and information. Furthermore, certain PRC regulatory authorities issued Opinion on Severely Punishing Illegal Activities in Securities Market, which were available to the public on July 6, 2021, further emphasized to strengthen cross-border regulatory collaboration, to improve relevant laws and regulations on data security, cross-border data transmission, and confidential information management, and provided that efforts will be made to revise the regulations on strengthening the confidentiality and archive management relating to the offering and listing of securities abroad, to implement the responsibility on information security of companies listed in foreign countries, and to strengthen the standardized management of cross-border information provision mechanisms and procedures. However, these opinions were newly issued, and there were no further explanations or detailed rules or regulations with respect to such opinions, and there are still uncertainties regarding the interpretation and implementation of these opinions. On July 7, 2022, CAC promulgated the Measures on Data Export Security Assessment (《數據出境安全評估辦法》), which came into effect on September 1, 2022. Such Measures on Data Export Security Assessment requires data processors to apply for a security assessment on data export in one of the following scenarios:

(1) where a data processor provides critical data abroad;

(2) where a critical information infrastructure operator or a data processor who processes the personal information of one million or more individuals transfers such personal information abroad;

(3) where a data processor has provided personal information of 100,000 individuals or sensitive personal information of 10,000 individuals in total abroad since January 1 of the previous year; and

(4) other circumstances prescribed by the CAC for which declaration for security assessment for outbound data transfers is required. According to our self-assessment, up to the Latest Practicable Date, we believe neither of the above threshold applies to us, and we did not trigger the government security assessment under the Measures on Data Export Security Assessment.

On November 14, 2021, the CAC released the Network Data Security Management Regulations (Draft for Comment) (the "**Draft Regulations**") (《網絡數據安全管理條例(徵求意見稿)》). The Draft Regulations stipulates several requirements for entities who process data through Internet within PRC, including data processor (i) shall be responsible for the security of the data it processed and shall undertake data protection obligation; and (ii) shall establish comprehensive data protection system and technical protection mechanism. At present, the Draft Regulations had only been released for consultation purposes, and several detail requirements are newly included in the Draft Regulations, as such there still remain uncertainties as to its final content, anticipated adoption or effective date, final interpretation and implementation, and other aspects. We will closely monitor the rule-making process and will assess and determine whether we are required to apply for the cybersecurity review when and once the Drafted Regulation is formally promulgated. Even if we endeavor to comply with relevant laws and regulations, we may not always be able to do so due to a lack of detailed implementation rules by relevant government authorities. In addition, some provisions under certain laws and regulations still remain principle and lack specific interpretation up to data especially to a specific case scenario. These uncertainties may have material adverse impact on our business operation and financial results.

On December 28, 2021, the CAC, and 12 other relevant PRC government authorities published the amended Cybersecurity Review Measures, which became effective on February 15, 2022 and superseded and replaced the current Cybersecurity Review Measures previously promulgated on April 13, 2020. The Cybersecurity Review Measures provide that (i) data processors which carry out data processing activities and (ii) any "operator of critical information infrastructure" which purchase network solutions or services to conduct cybersecurity review if they will affect or may affect national security. In addition, the relevant PRC governmental authorities may initiate cybersecurity review if they determine certain network products, services, or data processing activities affect or may affect national security. There can be no assurance if we are required to follow the cybersecurity review procedures, and if so, whether we would be able to complete the applicable cybersecurity review procedures in a timely manner. In addition, any failure or delay in the completion of the cybersecurity review procedures or any other noncompliance or perceived noncompliance with the PRC Cybersecurity Law or related regulations may prevent us from using or providing certain network solutions and services, and may result in fines or other penalties such as making certain required rectification, suspending our related business, closing our website or taking down our operations and reputational damages or proceedings or actions against us by PRC regulatory authorities, customers or others, which may have a material adverse effect on our business, operation or financial conditions.

These and other similar legal and regulatory developments could lead to legal and economic uncertainties, affect how we design our IT systems, how we operate our business, how we and our business partners process data, which could negatively impact demand for our solutions. For example, on July 10, 2023, the CAC, consented by NDRC, Ministry of Education, Ministry of Science and Technology, MIIT, Ministry of Public Security, National Radio and Television Administration, promulgated the Provisional Administrative Measures for Generative Artificial Intelligence Services (生成式人工智能服務管理暫行辦法) ("Generative Artificial Intelligence Services Measures"), effective on August 15, 2023. The Generative Artificial Intelligence Services Measures impose compliance requirements for providers of generative AI services to the general public within the territory of PRC. The Generative Artificial Intelligence Services Measures provide, among other things, that the provider of generative AI services of text, image, audio or video to the general public shall (i) assume the responsibilities as the producers of the AI-generated content thereon, and (ii) any provider of generative artificial intelligence services with attribute of public opinions or capable of social mobilization shall conduct security assessment in accordance with the relevant regulations, and complete the formalities for algorithm filing, change or deregistration in accordance with Provisions on the Administration of Algorithm-generated Recommendations for Internet Information Services (互聯網信息服務算法推薦管理規定). On the basis that our SageGPT is only provided to enterprises but not to the general public, our PRC Legal Advisor is of the view that, based on the textual interpretation of the Generative Artificial Intelligence Services Measures, it may be unlikely that we would be required to apply for security assessment or complete the formalities of algorithms filing, change or deregistration procedure. With our PRC Legal Advisor's view as mentioned above, we are of the view that the Generative Artificial Intelligence Services Measures will not have a material adverse impact on our current and future business operations and financial performance. Nevertheless, there can be no assurance that the relevant authorities will not take a view that is contrary to or otherwise different from that of our PRC Legal Advisor, and it is also possible that the PRC government authorities may require us to apply for security assessment or complete the filing, change or deregistration formalities of algorithms for other reasons.

We may incur substantial costs to comply with such laws and regulations, to meet the demands of our users relating to their own compliance with applicable laws and regulations and to establish and maintain internal compliance policies.

We are subject to the risks associated with international trade policies, geopolitics and trade protection measures, and our business, financial condition and results of operations could be adversely affected. Effective March 2, 2023, BIS added certain entity(ies) to the Entity List, which restricts their ability to purchase or otherwise access certain goods, software and technology. Out of an abundance of caution and unless or until we receive further clarification from BIS, we will assume that all entities located at the address provided in the Entity List are subject to the Entity List restrictions in order to comply with relevant restrictions.

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

Effective March 2, 2023, the U.S. Department of Commerce's Bureau of Industry and Security ("BIS") added certain entities to the entity list (the "Entity List"), including "4Paradigm Technology Co., Ltd." with aliases "4Paradigm," "4th Paradigm," and "Fourth Paradigm". The address of such entity was provided as "Building 1, No. 66 Qinghe Middle Street, Haidian District, Beijing, China." Out of an abundance of caution and unless or until we receive further clarification from BIS, we will assume that all entities located at the address provided in the Entity List are subject to the Entity List restrictions in order to comply with relevant restrictions. These entities specifically include: Beijing Fourth Paradigm Technology Co., Ltd., Fourth Paradigm (Beijing) Data & Technology Co., Ltd., Beijing Paradigm Empowerment Enterprise Management Co., Ltd., Beijing Xuexian Intelligent Technology Co., Ltd., Beijing Yuntian Xinrui Technology Co., Ltd., Beijing Future Paradigm Technology Co., Ltd., Zhongyuan Putai (Beijing) Intelligent Technology Co., Ltd., and Zhimei Xinchuang (Beijing) Technology Co., Ltd. (the "Listed Entities"). However, it is possible that not all Listed Entities are subject to the restrictions. For more details of these entities, see "History, Development and Corporate Structure – Our Principal Subsidiaries" and Note 1 to the Accountant's Report in Appendix I to this Document.

The addition of the Listed Entities to the Entity List restricts the ability of those specific entities, but not of legally distinct entities, such as subsidiaries or affiliates of the Listed Entities, to purchase, acquire, or otherwise obtain any items subject to the Export Administration Regulations, 15 C.F.R. Parts 730-774 ("EAR") without a license from BIS. Specifically, absent a license from BIS, it is prohibited to export, reexport, or transfer any items subject to the EAR when any Listed Entity is a party to the transaction, including as purchaser, intermediate consignee, ultimate consignee, or end-user. That is, even if the Listed Entity is not the intended end user of the item(s) involved, the restrictions would still apply to the extent the Listed Entity is the purchaser or otherwise involved in a given transaction. License applications to the Listed Entities will be reviewed with a presumption of denial for all items subject to the EAR. For further information, see "Regulatory Overview – U.S. Export Control Laws and Regulations." For detailed analysis on the Entity List addition, please see "Business – U.S. Export Control Laws and Regulations."

To address the EAR-related risks after the addition to the Entity List, we have adopted a series of export control compliance measures for the entire Group, in abundance of caution. We have developed and are implementing an export control compliance program, focused on screening of suppliers and customers, monitoring and review of items that are subject to the EAR and employee training. For further information, see "Business – U.S. Export Control Laws and Regulations." However, there can be no assurance that our export control compliance measures or program can be strictly followed and implemented, or that the implementation of such export control compliance measures or program would be sufficient for us to address concerns under the EAR. Failure to comply with the EAR could lead to regulatory investigations, civil penalties and negatively affect our relationship with our suppliers, which, in turn, could negatively affect our business operations.

Given the complexity of the U.S. Export Administration Regulations and level of information required for an exporter, reexporter, or transferor (within China) to determine whether an item is subject to U.S. law, there may be a non-compliance on the part of suppliers that might supply us goods incorporating controlled U.S.-origin content (in excess of the EAR's de minimis threshold) or that are the foreign-produced direct product of U.S. technology or software, or are produced by a plant or major component of a plant that itself is a direct product of specified technology or software. Because the EAR asserts liability broadly to include parties acting with knowledge or reason to know a violation has occurred, will occur, or is likely to occur, there is a risk that we could be subject to a potential BIS investigation, enforcement action, or civil monetary penalties if our suppliers fail to comply with the EAR.

The Entity List designation could have a negative impact on our reputation with U.S. regulators, businesses, and banking institutions. We believe there is a risk some business partners, particularly those in the United States or with significant exposure in the United States, might refuse to engage in certain business with us for a variety of reasons, including over-compliance with or misunderstanding of the legal effect of the Entity List designation, an inability to determine whether items being sold are subject to U.S. law, de-risking (particularly among western financial institutions), and reputational concerns. As of the date of this Document, none of our material investors, customers, or suppliers have withdrawn their investment, ceased doing business with us due to the BIS Entity List designation, or notified us in writing or otherwise of their intention to do so.

Our relationships with suppliers may evolve in the future, and there can be no assurance that we will maintain our access to all items that are necessary to our business. Furthermore, as technologies continue to advance, third parties may offer new technologies or products that could enhance our technology infrastructure or solutions. To the extent that any product or technology we currently use becomes subject to the EAR or any such new technologies or products are subject to the EAR, the Listed Entities would not be able to access them if they remain on the Entity List by then at that time, unless the exporter obtains a license from BIS (which is subject to a licensing review policy of denial). There can be no assurance that the Listed Entities would be able to identify alternative supply chain arrangements to access similar technologies or products of the same quality at similar cost, and we may encounter increased supplier scrutiny due to the addition to the Entity List. As such, if the Listed Entities remain on the Entity List on a prolonged basis, our business, results of operations and financial condition could be negatively affected.

There is no assurance whether the Entity List designation will be expanded to additional entities of our Group, or we will be subject to any economic sanctions, such as the Non-SDN Chinese Military-Industrial Complex Companies ("NS-CMIC") List which prohibits U.S. persons (companies and individuals) from purchasing or selling certain publicly traded securities, or any publicly traded securities that are derivative of such securities or are designed to provide investment exposure to such securities of entities on the NS-CMIC list. As of the Date of this Document, we have not been added to the NS-CMIC List, and the Entity List designation has not been expanded to additional entities of our Group. Despite that we believe designation of the Listed Entities to the Entity List should not have a material impact on the business or operations of our Group, if, in addition to the Listed Entities, other subsidiaries of our Group, or if the entire Group were to become targeted by economic sanctions and/or export control restrictions, this may result in interruptions of our business and reputational harm to us.

For another example, on August 9, the U.S. President Joe Biden signed an executive order on "Addressing United States Investments In Certain National Security Technologies And Products In Countries Of Concern" (the "EO") and U.S. Department of Treasury issued an Advance Notice of Proposed Rulemaking (the "ANPRM") seeking public comment related to the implementation of the executive order, providing a conceptual framework for outbound investment controls focused on China, including Hong Kong and Macau, involving certain technologies, including AI. No detailed rules have yet been proposed, and there are no currently effective restrictions or notification requirements. As proposed in the ANPRM, the U.S. Department of Treasury intends to (i) prohibit U.S. investments into covered foreign persons engaged in the development of software that incorporates an AI system and is designed to be exclusively (or primarily) used for military, government intelligence, or mass-surveillance end uses (the "Proposed Prohibited End Uses"), and (ii) require U.S. persons to notify the U.S. Department of Treasury if undertaking a transaction with a covered foreign person engaged in the development of software that incorporates an artificial intelligence system and is designed to be exclusively (or primarily) used for: cybersecurity applications, digital forensics tools, and penetration testing tools; the control of robotic systems; surreptitious listening devices that can intercept live conversations without the consent of the parties involved; non-cooperative location tracking (including international mobile subscriber identity (IMSI) Catchers and automatic license plate readers); or facial recognition (the "Proposed Notifiable End Uses"). As our AI solutions are primarily used to empower enterprises with AI development and management capabilities, and enables them to design, develop, and operate AI applications at scale, and our AI applications are primarily used in areas including sales and marketing, risk management and operating efficiency enhancement, we do not believe that our products would fall into the Proposed Prohibited End Uses or the Proposed Notifiable End Uses or that we would be categorized as a "covered foreign person" when the final implementation rules are adopted by the Treasury. In addition, the ANPRM proposes to exclude from the definition of "covered transaction" certain "excepted transactions," including a passive investment into a publicly traded security. However, if the final implementing rules expand the scope of the covered technologies and products to restrict transactions by U.S. persons with us or narrows the scope of "excepted transactions", or if any similar or more expansive restrictions imposed by the U.S. or other jurisdictions are adopted in the future, our financing and business activities will be adversely affected, and our business operations and financial conditions will be impacted as a result.

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

With respect to each industry vertical that we have entered into, we compete against existing players in such verticals, such as certain leading technology companies, non-AI enterprise solution providers and/or non-platform-centric AI decision-making market participants. We may also in the future face competition from new market entrants. Such new entrants may include better-established technology companies that possess substantial financial resources, sophisticated technological capabilities and broad distribution channels. Furthermore, we may face competition from global technology companies that seek to enter the China market, whether independently or through 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. In addition, we may be compelled to make substantial additional investments in research and development, marketing and sales in order to respond to such competitive threats, and we cannot assure you that such measures will be effective. If we are unable to compete successfully, or if competing successfully requires us to take costly actions in response to the actions of our competitors, our business, financial condition and results of operations could be adversely affected.

If the market for our solutions fails to grow as we expect, or if our users or potential users fail to adopt our solutions, our business, operating results, and financial condition could be adversely affected.

It is difficult to predict user adoption rates and demand for our AI solutions, the entry of competitive solutions, or the future growth rate and size of the AI industry. Although the demand for data management, machine learning, analytics platforms and applications has been growing in recent years, the market for these platforms and applications continues to evolve. We cannot be sure that the AI industry in China demand will continue to grow or, even if it does grow, that businesses will adopt our solutions. Our future success will depend in large part on our ability to further penetrate the markets where we operate. Our ability to further penetrate such markets depends on a number of factors, including the cost, performance and perceived value associated with our AI solutions, as well as users' willingness to adopt our AI solutions. We have spent, and intend to keep spending, considerable resources to educate potential users about AI in general and our solutions in particular. However, we cannot be sure that these expenditures will help our solutions achieve any additional market acceptance. Furthermore, potential users may be unwilling to invest in novel solutions. If the market fails to grow or grows slower than we expect or enterprises fail to adopt our AI solutions, our business, operating results and financial condition could be adversely affected.

Our brands are integral to our success. If we fail to effectively maintain, promote and enhance our brands, our business and competitive advantages may be harmed.

We believe that maintaining, promoting and enhancing our key brands, including but not limited to "4Paradigm" and "4Paradigm Sage", is critical to our business. Maintaining and enhancing our brands depend largely on our ability to continue to provide high-quality, well-designed, useful, reliable and innovative AI solutions, which we cannot assure you we will do successfully.

We believe the importance of brands recognition will increase as competition in our market increases. In addition to our ability to provide reliable and useful AI solutions at competitive prices, successful promotion of our brands will also depend on the effectiveness of our marketing efforts. We market our AI solutions through our direct sales force, solution partners, as well as customers and users' word-of-mouth referrals. Our efforts to market our brand have incurred significant costs and expenses and we intend to continue such efforts. We cannot assure you, however, that our selling and marketing expenses will lead to increases in revenue, and even if they do, such increases in revenue may not be sufficient to offset the expenses incurred.

Our sales cycles can be long and unpredictable, and our sales efforts require considerable time and expense.

Our results of operations may fluctuate, in part, because of the complexity of user problems that our AI solutions address, the resource-intensive nature of our sales efforts, the length and variability of the sales cycle of our solutions, and the difficulty in making short-term adjustments to our operating expenses. Our sales cycle primarily consists of initial communications with users, project evaluation and design, proof of concept and contracts execution. As we primarily focus on providing services to large-scale lighthouse users, we may spend significant time in communications with users, project evaluation and design, thereby resulting in longer sales cycles. Our sales cycles are difficult to predict. The length of our sales cycle is typically a few months on average can vary substantially from customer to customer and can extend over one year for some customers. According to CIC, such long sales cycle is consistent with industry norm of the decision-making AI market in China. Our sales efforts involve educating our users about the usage, technical capabilities and benefits of our AI solutions. Users often undertake a prolonged evaluation process, which frequently involves not only our AI solutions but also those of other companies.

In addition, the size of potential users may lead to longer sales cycles. Our go-to-market strategy starts with market leaders in each industry we target to enter, who are also early adopters of AI. Sales to such large users involve risks that may not exist or that exist but to a lesser extent in sales cycles of smaller entities, such as longer sales cycles, more complex user requirements (and higher contractual risk as a result), substantial upfront sales costs, less favorable terms and less predictability in completing some of our sales. For instance, we invest resources into sales to large organizations, which typically undertake a significant evaluation and negotiation process due to their leverage, size, organizational structure and approval requirements, all of which may lengthen our sales cycle. We may also need to provide more complicated deployment of our AI solutions or face unexpected deployment challenges with large organizations. Moreover, large enterprise users often deploy our solutions on a limited basis at the beginning, but nevertheless demand configuration, integration services and price negotiations, which increase our upfront investment in the sales effort with no guarantee that these users will deploy our solutions widely enough across their organization to justify our substantial upfront investment. We may incur substantial expenses, time and efforts on sales to large organizations without any assurance that these users will deploy our AI solutions widely enough across their organization, or at all, to justify our substantial upfront investment. As a result, it is difficult to predict exactly when, if ever, we will make a sale to a potential customer or increase sales to our existing customers.

If we are unable to ensure compatibility of our solutions with a variety of hardware and software platforms and software applications developed by others, including our partners, we may become less competitive and our results of operations may be harmed.

Our AI solutions may be integrated with a variety of hardware and software platforms and software applications, and we need to modify and enhance our AI solutions to adapt to changes in hardware and software technologies in a timely and cost-effective manner. Compatibility of our solutions and hardware and software developed by others is critical to the performance of our solutions. Failure to ensure compatibility of our solutions may negatively affect our competitive edge, and our business results of operations and financial condition would be harmed.

Changes in the market or our solutions may affect our pricing models and adversely affect our operating results.

Our pricing models face challenges from evolving market changes. As the market for our solutions grows, as our competitors introduce new solutions that compete with ours or reduce their prices, or as we enter into new verticals or international markets, we may be unable to attract new customers or retain existing customers based on our historical pricing models. Given our limited operating history and limited experience with our historical pricing models, we may not be able to accurately predict customer renewal or retention. In addition, regardless of the pricing model used, certain customers may demand higher price discounts. As a result, we may be required to reduce our prices, offer shorter contract durations or offer alternative pricing models, which could adversely affect our revenue, gross margin, profitability, financial position and cash flow.

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

Leveraging our leading position in the enterprise AI solution market and our core technologies, we are able to provide innovative AI-empowered solutions to address diversified needs of our users across different verticals. We have a track record of successfully expanding into new verticals. We cannot assure you, however, that we will be able to maintain this momentum in the future. Expanding into new verticals involves new risks and challenges. Unfamiliarity with new verticals may make it more difficult for us to keep pace with evolving user 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 vertical as well as their deeper industry insight and greater brand recognition. We could be subject to additional regulatory restrictions that are relevant 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.

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

We have made investments and acquisitions in recent years in companies such as our acquisitions of Guangzhou Jianxin and Ideal Technology during the Track Record Period. See "History, Development and Corporate Structure – Major Acquisitions and Investments." We expect to continue to evaluate and consider a wide array of investment and acquisition opportunities that we believe can extend and solidify our leading market position as part of our overall business strategy. We may be engaged in discussions or negotiations with respect to one or more of these types of transactions. These transactions involve significant challenges and risks, including:

- difficulties in integrating the acquired personnel, operations, solutions and/or services into our operations;

- potential issues with technology, internal controls and financial reporting of the companies we acquire;

- disruptions of our ongoing business, distractions of the attention of our management and employees and increase of our expenses;

- loss of skilled professionals and established client relationships of the businesses we invest in or acquire;

- for investments over which we do not obtain management and operational control, lack of influence over the controlling partner or shareholder, which may prevent us from achieving our strategic goals in such investments;

- new regulatory requirements and compliance risks that we become subject to as a result of investments or acquisitions in new industries or otherwise;

- actual or alleged misconduct or noncompliance by any company we acquire or invest in (or by its affiliates) that occurred prior to our acquisition or investment, which may lead to negative publicity, government inquiry or investigations against such company or against us;

- unforeseen or hidden liabilities or costs that may adversely affect us following our acquisition of such targets;

- compliance matters including the antimonopoly and competition laws, rules and regulations of the PRC and other countries in connection with any proposed investments and acquisitions;

- the risk that any of our pending or other future proposed investments or acquisitions does not close;

- the costs of identifying and consummating investments and acquisitions;

- the use of substantial amounts of cash and potentially dilutive issuances of equity securities;

- the occurrence of significant goodwill impairment charges and amortization expenses for other intangible assets; and

- uncertainties in achieving the expected benefits of synergies and growth opportunities in connection with these acquisitions and investments.

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

Rumors or negative publicity involving our Company, our solutions, our management, our customers, our business partners or our industry in general may materially and adversely affect our reputation, business, results of operations and growth prospects.

Negative publicity involving our industry, our Company, our solutions, our management, our customers or our business partners in the future may also materially and adversely harm our business and reputation. Although we made efforts to strengthen our responsiveness to negative publicity events, we cannot preclude media reports of a similar nature or similar allegations from other parties from being made in the future, nor can we assure you that we will be able to defuse such negative publicity to the satisfaction of our investors, customers and business partners or prevent related misconception and other damages caused by such reports. We may have to incur significant expenses and divert our management's time and attention in order to remedy the effects of these negative reports or allegations, which may materially and adversely affect our results of operations.

If we fail to obtain and maintain the requisite licenses and approvals required under the regulatory environment applicable to our business, or if we are required to take actions that are time consuming or costly in order to obtain and maintain such licenses and approvals, our business, financial condition and results of operations may be materially and adversely affected.

Under the current PRC regulatory scheme, a number of governmental authorities, including but not limited to the MIIT, MPS, CAC, jointly regulate major aspects of our industries.

As confirmed by our PRC Legal Advisor, as of the Latest Practicable Date, we have obtained all the requisite licenses and made all the requisite filings with competent governmental authorities that are material to the operation of the business we engage in China. However, we cannot assure you that we can successfully update or renew the licenses required for our business in a timely manner or that these licenses are sufficient to conduct all of our present or future business. The interpretation and implementation of existing and future laws and regulations governing our business activities may change from time to time in the future. If we fail to complete, obtain or maintain any of the required licenses or approvals or make the necessary filings, we may be subject to various penalties, such as confiscation of the revenue that was generated through the affected operations, the imposition of fines and the discontinuation or restriction of our operations. Any such penalties may disrupt our business operations and materially and adversely affect our business, financial condition and results of operations.

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

In recent years, 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. While we have conducted business with some of these entities, we have no reasons to believe that we have violated the imposed restrictions because we do not export, re-export, or transfer any U.S.-origin products, technology, components or software that are subject to the Export Administration Regulations to any entities listed on the U.S. Commerce Department's Entity List. We also believe there is limited impact resulting from such restrictions on our business. Furthermore, our transactions with these listed entities have represented a negligible portion of our results of operations.

However, 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 not within our control or that are heightened by national security concerns. For example, the U.S. government has tightened certain chip shipments to China. For another example, the PRC government has recently imposed a sales ban on a U.S. memory chip supplier in China. We did not purchase directly from this company during the Track Record Period. If any potential restrictions, any associated inquiries or investigations, or any other government actions occur, they may be difficult or costly to comply with and may, among other things, delay or impede the development of our technology and solutions, and hinder the stability of our supply chain. They could also result in negative publicity, require significant time and attention of the management and subject us to fines, penalties or orders that we cease or modify our existing business practices, if they occur. Any of these events may have an adverse effect on our business, financial condition and results of operations.

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 the jurisdictions where we operate. We may be subject to investigations and proceedings by governmental authorities for alleged infringements of these laws if our compliance processes or internal control systems are not conducted or are not operating properly. These proceedings may result in fines or other liabilities and could have a material adverse effect on our reputation, business, financial condition 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 control policies, 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 or sanctions and in turn adversely affect our reputation, business, financial condition and results of operations.

Uncertainties and changes in government policies in respect of the industries in which we operate may negatively affect our business, financial condition and results of operations.

Our growth depends in part on government spending and favorable government policies in respect of the industries in which we operate. However, such policies may be subject to changes that are beyond our control. There can be no assurance that government policies will continue. Uncertainties and changes in such policies may have a material adverse impact on our business, financial condition and results of operations.

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 customers. As of December 31, 2020, 2021, 2022 and March 31, 2023, our trade receivables amounted to RMB262.7 million, RMB778.3 million, RMB1,493.2 million and RMB1,494.0 million, respectively. We may not be able to collect all such trade receivables due to a variety of factors that are beyond our control. For example, 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 recoverability might be adversely affected. As the amount of provisions made on our trade receivables are recorded as expenses on our results of operations, if we are not able to effectively manage the credit risk associated with our trade receivables, our results of operations may be materially and adversely affected. Moreover, we usually grant a credit term ranging from 3 to 6 months, whereas our suppliers, especially the new suppliers, usually grant us shorter credit terms. This mismatch in credit terms may increase our liquidity risks from time to time.

We are subject to risks and uncertainties associated with our investments in associates and joint ventures.

We have invested in associated companies and joint ventures and may continue to do so in the future. The performance of such associates and joint ventures has affected, and will continue to affect, our results of operations and financial position. Our investments in associates and joint ventures, recorded as investments accounted for using the equity method, which amounted to RMB86.6 million, RMB115.2 million, RMB45.9 million and RMB45.2 million, respectively, as of December 31, 2020, 2021, 2022 and March 31, 2023. Our investments in associates and joint ventures are subject to liquidity risk. Our investments in associates and joint ventures are not as liquid as other investment products as there is no cash flow until dividends are received even if the associates or joint ventures reported profits under the equity method of accounting. Furthermore, our ability to promptly sell one or more of our interests in our associates or joint ventures in response to changing economic, financial and investment conditions is limited. The market is affected by various factors, such as general economic conditions, availability of financing, interest rates and supply and demand, many of which are beyond our control. We cannot predict whether we will be able to sell any of our interests in the associates or joint ventures for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a purchaser and to complete the relevant transaction. Therefore, the illiquidity nature of our investment in associates and joint ventures may significantly limit our ability to respond to adverse changes in the performance of our associates. The success of an associate or a joint venture depends on a number of factors, some of which are beyond our control. As a result, we may not be able to realize the anticipated economic and other benefits from such associates and joint ventures, such as receiving dividends from them.

We are exposed to changes in the fair value of our financial assets, especially with respect to fair value measurements for certain of our financial assets that involve the use of unobservable inputs.

Our results of operations are affected by changes in the fair value of our financial assets. As of December 31, 2020, 2021, 2022 and March 31, 2023, our financial assets at fair value though profit or loss were RMB195.3 million, RMB2,781.9 million, RMB1,808.1 million and RMB1,092.0 million, respectively. In 2020, 2021, 2022 and the three month ended March 31, 2022 and 2023, the amount of fair value change on financial assets at fair value through profit or loss recognized was RMB18.4 million, RMB85.0 million, RMB51.4 million, RMB18.0 million and RMB8.6 million, respectively. There can be no assurance that we will recognize fair value gains from financial assets in the future. Furthermore, our financial assets include wealth management products, fund investments and unlisted equity securities, which were issued by licensed financial institutions with unguaranteed return of principal and can be redeemed on demand at our discretion. As such, we are subject to credit risk arising from such wealth management products.

Fair value measurements for certain of our financial assets and financial liabilities are categorized into Level 3, which involve the use of unobservable inputs. As a result, Level 3 fair value measurements require us to apply significant estimates and assumptions with respect to the relevant financial assets.

We recognized significant goodwill and other intangible assets during the Track Record Period and may incur significant impairment charges related to these intangible assets, and our results of operation may be adversely affected as a result.

As of December 31, 2020, 2021, 2022 and March 31, 2023, we had intangible assets of RMB19.9 million, RMB395.4 million, RMB457.3 million and RMB448.1 million, respectively, of which goodwill amounted to nil, RMB259.7 million, RMB335.8 million and RMB335.8 million, respectively. Due to the frequent changes and development in technology, the assumptions we used in estimating the cash flow generated from our intangible assets may change, and the estimated useful life of our intangible assets might also be subject to significant uncertainty. If any significant changes were to occur, we may incur impairment charges for our intangible assets, and if any significant impairment charges were made, our results of operations may be negatively affected.

In addition, our equity investments and acquired businesses may not generate the financial results we expect. They could result in the occurrence of significant investments and goodwill impairment charges, as well as amortization expenses for other intangible assets. We periodically review goodwill and investments for impairment. If we conclude that any of these equity investments and acquired businesses are impaired, we will write down the asset to its fair value and take a corresponding charge to our consolidated statements of comprehensive income. As a result, our results of operations may be negatively affected.

We face inventory obsolescence, shortage or excess risks.

Our inventory mainly includes finished goods, which primarily consist of the servers of our "All-in-One" solutions, and contract fulfillment cost in relation to our deployment services. We face inventory obsolescence risks primarily with regard to the finished goods. As of December 31, 2020, 2021 and 2022 and March 31, 2023, we had inventories of RMB28.2 million, RMB184.5 million, RMB349.9 million and RMB408.4 million, respectively, of which finished goods accounted for RMB3.2 million, RMB20.6 million, RMB99.4 million and RMB86.0 million, respectively. We are exposed to inventory obsolescence and inventory shortage risks as a result of a variety of factors beyond our control, including, changes of user needs and the inherent uncertainty of the success of solution launches. As a result of unforeseen or sudden events, we may experience slow movement of our inventories, fail to utilize or sell our inventories swiftly, or face the risk of inventory obsolescence, and our business, results of operations, financial condition and prospects may be adversely affected.

If we cannot fulfill our obligations in respect of contract liabilities, the amount of fee collecting from customers and our liquidity position may be adversely impacted.

As of December 31, 2020, 2021, 2022 and March 31, 2023, we had contract liabilities of RMB77.1 million, RMB173.9 million, RMB325.7 million and RMB342.6 million, respectively. Our contract liabilities mainly arise from the advance payments made by customers while the underlying services are yet to be provided. If we cannot fulfill our obligations under these contracts, the amount of fee collecting from customers and our liquidity position may be adversely impacted.

We may be subject to impairment losses on prepayments and other receivables.

As of December 31, 2020, 2021, 2022 and March 31, 2023, we recorded prepayments and other receivables of RMB170.0 million, RMB272.0 million, RMB380.1 million and RMB388.7 million, respectively. Our prepayments and other receivables primarily represent our prepayments to suppliers, deductible value-added input tax, rental, bidding and other deposits, other receivable from a third party customer, and interest receivables. We may be subject to impairment losses on prepayments and other receivables if the actual recoverability of prepayments and other receivables is lower than the expected level, which could adversely affect our cash flow and our ability to meet our working capital requirements, thereby adversely affecting our business, financial condition and results of operations.

We have no control over the amount of government economic incentives that we receive.

Similar to many other companies in our industry, we benefit from government economic incentives. We recognized government grants of RMB18.5 million, RMB5.2 million, RMB5.3 million, RMB0.3 million and RMB1.1 million as other income in 2020, 2021, 2022 and the three months ended March 31, 2022 and 2023, respectively. However, the timing, amount and conditions of government economic incentives are within the sole discretion of governmental authorities. In addition, governmental authorities may require us to perform certain contractual obligations before we could receive government subsidies. However, there can be no assurance that we could fully satisfy these conditions or perform such obligations, and it is possible that such governmental authorities may stop subsidizing us. Any reduction, elimination, repayment or other negative trend in economic incentives resulting from our failure to perform such obligations could adversely affect our business, financial condition, results of operations and prospects.

Our business operations could be harmed by real or perceived material defects or errors in our solutions.

The technology underlying our AI solutions is inherently complex and may contain material defects or errors, particularly when new solutions are first introduced, when new features or capabilities are released or when integrated with new or updated third-party hardware or software. There can be no assurance that our existing AI solutions will not contain defects or errors. Any real or perceived errors, failures, vulnerabilities, or bugs in our AI solutions could result in negative publicity or lead to performance issues, all of which could harm our business. Correcting such defects or errors may be costly and time consuming. Moreover, the harm to our reputation and legal liability related to such real or perceived defects or errors may be substantial and would harm our business.

If the data used by our users are out of date, inaccurate or lacking credible information, the performance of our AI solutions will be adversely affected, which could adversely impact our business.

Low quality or inaccurate data could materially affect the performance of our solutions. We cannot ensure the accuracy and timeliness of the various sources of data that our users use in utilizing our AI solutions for various reasons. For example, the information available to our users may be limited. As a result, the data labels may be out of date, inaccurate or lacking credible information. In such events, our solutions may not be able to generate satisfactory results. Consequently, there may be negative conceptions about our solutions 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 to be bound, 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.

To address risks relating to our utilization of open-source software, such as risks of allegations of the ownership of open-source license, we have established an Open Source Review Board, who leads the formulation and implementation of a series of internal management protocols regarding utilization of open source software. Measures in such internal protocols includes, without limitation: (i) before utilize any open-source software, performing prudent assessment for open-source software to ensure such software is properly licensed and our expected usage scope of such software is within the authorization of license, so that we can mitigate the risks relating to allegations of the ownership of open-source license; (ii) strictly monitoring the utilization of open-source software to manage the license and codes thereof and ensure the compliance with open source authorizations; and (iii) inspecting the deliverable software that we developed with open-source software and replacing or amending any open-source components if there are risks in compliance with open-source licenses.

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 compete with us, or render such software no longer useful. It is also possible for competitors to develop their own solutions and services using open-source software, potentially reducing the demand for our solutions and services. With regard to the potential competition from open-source software developed by others, we believe our core capabilities that empower us in the competition lie in our self -developed solutions, which merely involve open-source software in certain basic service support that is not comparable to our core technologies. Therefore, we manage such competition risks primarily by focusing on our own development and technologies. 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 technology infrastructure may experience unexpected system failure, interruption, inadequacy, security breaches or cyberattacks. Our reputation, business and results of operations may be harmed by service disruptions or by our failure to timely and effectively scale and adapt our existing technology and infrastructure.

Our technology infrastructure is supported by servers in geographically dispersed data centers across China, including various locations Beijing and Inner Mongolia, that are fault-tolerant, which ensures the high reliability of our platform. We believe that we could relocate these physical servers to new properties without material disruption to our business, because we have made data backup in our servers in Beijing, which enables recovery of our system within a few hours in the event of any disruptions to, including relocations of these physical servers. Our technology infrastructure may encounter disruptions or other outages caused by problems or defects in our own technologies and systems, such as malfunctions in software or network overload. Our technology infrastructure may be vulnerable to damage or interruption caused by telecommunication failures, power loss, human error or other accidents. Despite any precautionary measures we may take, the occurrence of unanticipated problems that affect our technology infrastructure could result in interruptions in the availability of our solutions. It may be difficult for us to respond to such interruptions in a timely manner, or at all. Such interruptions may affect the ability of users to use our solutions, which would damage our reputation, reduce our future revenues, harm our future profits, subject us to regulatory scrutiny and lead our users to seek alternative solutions.

Furthermore, our infrastructure is also vulnerable to damages from fires, floods, earthquakes and other natural disasters, power loss and telecommunications failures. Any network interruption or inadequacy that causes interruptions to our operations, or failure to maintain the network and server or solve such problems in a timely manner, could reduce our user satisfaction, which in turn could adversely affect our reputation, business and financial condition.

We depend on third party business partners in our business operations. Such arrangements reduce our control over the quality, development, and deployment of our solutions and could harm our business.

We engage third parties in our business operations. We procure certain hardware components from third party vendors. We also outsource certain non-core and less sophisticated research and development projects as well as deployment of our solutions to third party vendors. Such arrangements may reduce our direct control over the quality, development and deployment of our solutions. We may experience operational difficulties with our third party vendors, including reductions in the availability of production capacity, failures to comply with product specifications, insufficient quality control and failures to meet deployment schedules. Our third party vendors may experience disruptions in their operations due to equipment breakdowns, labor strikes or shortages, natural disasters, material shortages, cost increases, environmental noncompliance issues or other similar problems. In addition, we may not be able to renew contracts with our third party vendors or identify substitute partners. Although arrangements with these vendors may contain provisions for warranty expense reimbursement, we may remain responsible to the customer for warranty service in certain events. Any failure of our third party vendors to perform their responsibilities or to be in compliance with all applicable laws and regulations may have a material negative impact on our business.

Our exchange, return and warranty policies may adversely affect our results of operations.

Our policy allows solutions with defects to be returned and exchanged by our customers. In addition, we offer a limited warranty for our solutions or purchase a limited warranty for our customers from the third party vendors who supply certain components for hardware products of our AI solutions. Warranty coverage typically runs for one to five years from the time of purchase, depending on the solution. We may also be required by law to adopt new or amend existing return, exchange and warranty policies from time to time. These policies improve user experience and promote user loyalty, which in turn help us acquire and retain customers. However, these policies also subject us to additional costs and expenses which we may not recoup through increased revenue. We cannot assure you that our return, exchange and warranty policy will not be misused by our customers, which may significantly increase our costs and may materially and adversely affect our business and results of operations. If we revise these policies to reduce our costs and expenses, our customers may be dissatisfied, which may result in loss of existing customers or failure to acquire new users at a desirable pace, which may materially and adversely affect our results of operations.

We are exposed to the risks associated with doing business internationally.

As we plan to expand our operations to additional overseas markets and regions, we may have to adapt our business models to the local market due to various legal requirements and market conditions. Our international operations and expansion efforts may result in increased costs and are subject to a variety of risks, including increased competition, uncertain enforcement of our intellectual property rights, unfamiliar market conditions and the complexity of compliance with Chinese and foreign laws and regulations.

We also could be significantly affected by other risks associated with international activities including, but not limited to, economic and labor conditions, increased duties, taxes and other costs and political instability. Sales of our solutions in foreign countries could be materially and adversely affected by international trade regulations, including duties, tariffs and antidumping penalties. We are also exposed to credit and collectability risk on our trade receivables with customers in certain international markets. There can be no assurance that we can effectively limit our credit risk and avoid losses.

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.

The COVID-19 pandemic and any recurrence or continuance of the outbreak 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 uncertainties about potential continuing impacts on subsequent periods. 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."

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

We have devoted substantial resources to the development of our technology and knowhow. Although we enter into employment agreements with confidentiality, non-compete covenants and intellectual property ownership clauses with our employees, 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 copyrights, trademarks, trade secrets and other intellectual properties as critical to our success and rely on a combination of 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.

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 have designed and adopted strict internal procedures to ensure the adequate protection of our intellectual property rights, including but not limited to, patents, copyrights, proprietary technologies, trade secrets and trademarks. Our legal department examines the contract terms and reviews all relevant documents for our business operations, including licenses and permits obtained by the counterparties or us to perform contractual obligations and all the necessary underlying due diligence materials, before we enter into any contract or business arrangements. In addition, our legal department is responsible for obtaining any requisite governmental pre-approvals or consent, including preparing and submitting all necessary documents for filing with relevant government authorities within the prescribed regulatory timelines and ensuring all necessary application, renewals or filings for trademark, copyright and patent registration have been timely made to the competent authorities. See "Business – Risk Management and Internal Control – Compliance and Intellectual Property Risk Management." Regarding management of risks relating to third-party vendors whom we engage for certain non-core and unsophisticated development projects, we take various measures to ensure our proprietary technologies and other intellectual properties are adequately protected, including but not limited to: (i) performing due diligence on the third-party vendors before we engage them and including relevant intellectual properties terms in contracts to prevent any risks and issues with intellectual properties beforehand; (ii) formulating and implementing confidentiality policies with respect to our cooperation with third-party vendors to prevent leaks of our proprietary technologies and trade secrets; and (iii) implementing the same management standard on product components provided by third parties as those developed by us, and including relevant contract terms to mitigate our risks arising from such third-parties' usage of open-source software.

Trademarks registered, internet search engine keywords purchased and domain names registered by third parties that are similar to our trademarks, brands or websites could cause confusion to our customers, divert customers away from our solutions or harm our reputation.

Competitors and other third parties may register trademarks or purchase internet search engine keywords or domain names that are similar to ours, in order to divert potential customers from our platforms to theirs. Preventing such unfair competition activities is inherently difficult. If we are unable to prevent such activities, competitors and other third parties may drive potential customers away from our platforms, which could harm our reputation and materially and adversely affect our results of operations.

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, and indemnity provisions in various agreements potentially expose us to substantial liability for intellectual property infringement and other losses.

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate trademarks, copyrights or other intellectual property rights held by third parties. We may from time to time be subject to such proceedings and claims. 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 may change from time to time in the future, 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 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 an injunctive relief was 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.

Further, our agreements with customers and other third parties generally include indemnification provisions under which we agree to indemnify them for losses suffered or incurred as a result of claims of intellectual property infringement, or other liabilities relating to or arising from our software, services or other contractual obligations. Large indemnity payments could harm our business, results of operations and financial condition. Although we normally contractually limit our liability with respect to such indemnity obligations, generally, those limitations may not be fully enforceable in all situations, and we may still incur substantial liability under those agreements. Any dispute with a customer with respect to such obligations could have adverse effects on our relationship with that customer and other existing customers and new customers and harm our business and results of operations.

Our risk management and internal control systems may not be adequate or effective.

We have designed and implemented risk management and internal control systems comprising organizational framework policies and procedures, financial reporting processes, compliance rules and risk management measures we believe are appropriate for our business operations. While we seek to improve our risk management and internal control systems on a continuous basis, we cannot assure you that these systems are sufficiently effective in ensuring, among other things, accurate reporting of our financial results and the prevention of fraud. See "Business – Risk Management and Internal Control" for further information on our internal control policies. Since our risk management and internal control systems depend on implementation by our employees, and even though we provide relevant internal trainings in this regard, we cannot assure you that our employees are sufficiently or fully trained to implement these systems, or that their implementation will be free from error or mistakes. If we fail to timely update, implement, and modify, or fail to deploy sufficient human resources to maintain our risk management policies and procedures, our business, financial condition, results of operations and prospects could be materially and adversely affected.

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

We may be the target of anticompetitive, harassing, or other detrimental conduct by third parties. Such conduct includes complaints, anonymous or otherwise, to regulatory agencies. We may be subject to government or regulatory investigation as a result of such third-party conduct and may be required to expend significant time and incur substantial costs to address such third-party conduct, and there is no assurance that we will be able to conclusively refute each of the allegations within a reasonable period of time, or at all. Additionally, allegations, directly or indirectly against us, may be posted online by anyone, whether or not related to us. The availability of information on social media is virtually immediate, as is its impact. Social media immediately publish the content their subscribers and participants post, often without filters or checks on the accuracy of the content posted. Such information posted may be inaccurate and adverse to us, and it may harm our financial performance, prospects or business. The harm may be immediate without affording us an opportunity for redress or correction. Our reputation may be negatively affected as a result of the public dissemination of anonymous allegations or malicious statements about our business, which in turn may cause us to lose market share, customers and revenues.

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

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

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

Noncompliance 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, directly or indirectly, affect our business. We cannot be certain whether such third parties have 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 noncompliance by third parties. We cannot assure you that we will be able to identify irregularities or noncompliances in the business practices of our business partners or other third parties, or that such irregularities or noncompliance 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.

Share-based payment may cause shareholding dilution to our existing Shareholders and have a material and adverse effect on our financial performance.

We adopted a share incentive plan for the benefit of our employees as remuneration for their services provided to us to incentivize and reward the eligible persons who have contributed to the success of our Company. For details, see "Appendix VI – Statutory and General Information – Further Information about Our Directors, Supervisors, Senior Management and Substantial Shareholders – 5. Employee Incentive Scheme." In 2020, 2021 and 2022, we incurred share-based compensation of RMB173.7 million, RMB603.6 million and RMB433.4 million, respectively. We did not incur share-based compensation for the three months ended March 31, 2023. To further incentivize our employees to contribute to us, we may grant additional share-based compensation in the future. Issuance of additional Shares with respect to such share-based payment may dilute the shareholding percentage of our existing Shareholders. Expenses incurred with respect to such share-based payment may also increase our operating expenses and therefore have a material and adverse effect on our financial performance.

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 may be subject to claims and various legal and administrative proceedings, and, as a result, penalties and new claims may arise in the future. In addition, agreements we entered into sometimes include indemnification provisions which may subject us to costs and damages in the event of a claim against an indemnified third party.

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 or punitive 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. For further details regarding our legal proceedings and compliance matters, see the sections headed "Business – Legal Proceedings and Compliance" and "Business – Licenses and Permits."

We are subject to strict regulatory requirements in labor-related laws and regulations of the PRC.

We have been subject to stricter regulatory requirements in terms of entering into labor contracts with our employees and paying various statutory employee benefits, including pensions, housing funds, medical insurance, work-related injury insurance, unemployment insurance and childbearing insurance to designated government agencies for the benefit of our employees. Pursuant to the PRC Labor Contract Law, or the Labor Contract Law, that became effective in January 2008 and was amended in December 2012 and its implementing rules that became effective in September 2008, employers are subject to stricter requirements in terms of signing labor contracts, minimum wages, paying remuneration, determining the term of employees' probation and unilaterally terminating labor contracts. In the event that we decide to terminate some of our employees or otherwise change our employment or labor practices, the Labor Contract Law and its implementation rules may limit our ability to effect those changes in a desirable or cost-effective manner, which could adversely affect our business and results of operations. We believe our current practice complies with the Labor Contract Law and its amendments. However, the relevant governmental authorities may take a different view and impose fines on us. We also procure that subsidiaries we acquired comply with applicable labor-related laws and regulations. Failure to do so may result in fines or other penalties by government authorities.

As the interpretation and implementation of labor-related laws and regulations are still evolving, our employment practice could inadvertently violate labor-related laws and regulations in China, which may subject us to labor disputes or government investigations. If we are deemed to have violated relevant labor laws and regulations, we could be required to provide additional compensation to our employees and our business, financial condition and results of operations could be materially and adversely affected.

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

As of the Latest Practicable Date, ten of our leased properties for our business operations in China have not been registered with the relevant PRC government authorities. As advised by our PRC Legal Advisor, failure to register such lease agreements with relevant PRC government authorities does not affect the effectiveness of the lease agreements, but the relevant PRC government authorities may order us to, within a prescribed time limit, register the lease agreements. Failure to do so may subject us to a fine ranging from RMB1,000 to RMB10,000 for each lease agreement. We estimate that the aggregate maximum amount of penalties for not registering such lease agreements would be RMB100,000. As of the Latest Practicable Date, we had not been ordered by any PRC government authorities to register any lease agreements.

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

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

In addition, we may not be able to locate desirable alternative sites for our facilities as our business continues to grow, and failure in relocating our affected operations could adversely affect our business and operations.

Turmoil in the banking industry may lead to market-wide liquidity issues and could in turn negatively impact our business, results of operations and financial condition.

Turmoil in the banking industry, such as the March 2023 failures of Silicon Valley Bank and Signature Bank, may lead to market-wide liquidity problems and negatively impact our business. Such failure of banks, government responses and resulting investor concerns regarding the U.S. or international financial systems could result in less favorable commercial financing terms, such as higher interest rates or costs and tighter financial and operating covenants, or systemic limitations on access to credit and liquidity sources, making it more difficult for us or our customers to acquire financing. Although we do not have deposits at risk at any of the financial institutions with liquidity or solvency issues, such market-wide liquidity issues could adversely impact our and our customers' financial capability, which could negatively affect our financial position and business growth.

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

We believe we maintain insurance policies in line with industry standards. We do not maintain business interruption insurance, key-man life insurance or litigation insurance. Any uninsured occurrence of business disruption, litigation or natural disaster, or significant damages to our uninsured equipment or facilities could have a material adverse effect on our results of operations. Our current insurance coverage may not be sufficient to prevent us from any loss and there is no certainty that we will be able to successfully claim our losses under our current insurance policy on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business, financial condition and results of operations could be materially and adversely affected. If such risk materializes, we may also suffer substantial losses as we do not have insurance coverage.

We face risks related to natural disasters, health epidemics and other outbreaks of contagious diseases.

Our business could be adversely affected by natural disasters or outbreaks of epidemics. These natural disasters, outbreaks of contagious diseases and other adverse public health developments in any market where we operate could severely disrupt our business operations by damaging our network infrastructure or information technology system or impacting the productivity of our workforce, which may adversely affect our financial condition and results of operations.

RISKS RELATED TO DOING BUSINESS IN THE PRC

Adverse changes in economic, political and social conditions, could have a material adverse effect on our business and prospects.

Substantially 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. If the macro-economy condition experiences significant adverse changes due to any of the foregoing reasons, demand for our solutions 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.

Fluctuations in the value of the Renminbi and other currencies may have a material adverse impact on your [REDACTED].

During the Track Record Period, substantially all of our revenues and expenditures were denominated in Renminbi, while the net [**REDACTED**] from the [**REDACTED**] will be in Hong Kong dollars. Fluctuations in the exchange rate between the Renminbi and the Hong Kong dollar will affect the relative purchasing power in Renminbi terms of the [**REDACTED**] from the [**REDACTED**]. Fluctuations in the exchange rate may also cause us to incur foreign exchange losses and affect the relative value of any dividend issued by our PRC subsidiaries.

Movements in Renminbi exchange rates are affected by, among other things, changes in political and economic conditions and China's foreign exchange regime and policy. With the development of the foreign exchange market and progress towards interest rate liberalization and renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system, and we cannot assure you that the renminbi will not appreciate or depreciate significantly in value against other currencies in the future. It is difficult to predict how market forces or relevant government policies may impact the exchange rate between the renminbi and other currencies in the future.

To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risks. In any event, the availability and effectiveness of these hedges may be limited and we may not be able to hedge our exposure successfully, or at all.

Restrictions on the remittance of Renminbi into and out of the PRC and governmental control of currency conversion may limit our foreign exchange transactions, including our ability to pay dividends and other obligations, and may affect the value of your [REDACTED].

Currently, the conversion and remittance of foreign currencies from RMB are subject to PRC foreign exchange regulations. It cannot be guaranteed that under a certain exchange rate, 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 the SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the licenses to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by the SAFE.

Under existing foreign exchange regulations, following the completion of the [**REDACTED**], we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, the foreign exchange policies regarding payment of dividends in foreign currencies may change from time to time in the future. In addition, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to shareholders or to satisfy any other foreign exchange requirements. If we fail to obtain approval from the SAFE to convert Renminbi into any foreign exchange for any of the above purposes, our capital expenditure plans, and even our business, operating results and financial condition, may be materially and adversely affected.

Policies on foreign investment in the PRC may adversely affect our business and results of operations.

The investment activities of foreign investors in the PRC are subject to certain regulations regarding the industry participated and imposed to additional verification procedures by certain authorities. The Special Management Measures (Negative List) for the Access of Foreign Investment (2021) (《外商投資准入特別管理措施(負面清單)(2021年版)》, the "Negative List") issued by the NDRC and MOFCOM, which set out in a unified manner the restrictive measures for the access of foreign investments such as the requirements for equity and senior management, and the industries that are prohibited for foreign investment. The Negative List covers 12 industries, and any field not covered by the Negative List shall be administered under the principle of equal treatment to domestic and foreign investment. As of the Latest Practicable Date, our main business in China does not fall within the Negative List. However, certain industries are specifically prohibited for foreign investment, which may restrict us from entering into these industries afterwards. Also, as the Negative List may be updated from time to time in the future. If we cannot obtain approval from relevant approval authorities to engage in a business in China that becomes prohibited or restricted for foreign investors, we may need to sell or restructure our business which has become restricted or prohibited for foreign investment. If we need to adjust our corporate structure or business line as a result of changes in government policy on foreign investment, our business, financial condition and results of operations may be adversely affected.

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

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

For a qualified high- and new-technology enterprises, the applicable enterprise income tax rate is 15%. The high- and new-technology enterprise qualification is reassessed by the relevant authorities every three years. Moreover, a qualified software enterprise is entitled to a tax holiday consisting of a two-year tax exemption beginning with the first profit-making calendar year and a 50% tax reduction for the subsequent three years. The software enterprise qualification is subject to an annual assessment. If our preferential tax treatments are revoked, become unavailable or if the calculation of our tax liability is successfully challenged by the PRC tax authorities, the discontinuation of any of the various types of preferential tax treatment we enjoy could materially and adversely affect our results of operations. See the section headed "Description of Key Statement of Comprehensive Income Items – Taxation – PRC."

Our operations are subject to and may be affected by changes in PRC tax laws and regulations.

We are subject to periodic examinations on fulfillment of our tax obligation under the PRC tax laws and regulations by PRC tax authorities. Although we believe that in the past, we have acted in compliance with the requirements under the relevant PRC tax laws and regulations in all material aspects and established effective internal control measures in relation to accounting regularities, we cannot assure you that future examinations by PRC tax authorities would not result in fines, other penalties or action that could adversely affect our business, financial condition and results of operations, as well as our reputation. Furthermore, PRC tax laws and regulations may be adjusted from time to time. For example, under the Individual Income Tax Law of the People's Republic of China (the "IIT Law") (《中華人民共和國個人所得税法》), which was amended on June 30, 2011 and came into effect on September 1, 2011, foreign nationals who have domiciles in the PRC, or have no domicile in China but have resided in the PRC for one year or more, would be subject to PRC individual income tax at progressive rates on their income gained within or outside the PRC. The Standing Committee of NPC has approved the amendment of the IIT Law, which became effective on January 1, 2019. Under the amended IIT law, foreign nationals who have no domicile in China but have resided in the PRC for a total of 183 days or more in a tax year would be subject to PRC individual income tax on their income gained within or outside the PRC. Our ability to attract and retain highly skilled foreign scientists and research personnel to work in China may be materially affected by such tax regulations, which may in turn have a material adverse effect on our business, financial condition, results of operations, cash flows and prospects. The PRC tax laws and regulations may change from time to time in the future and may also have an adverse effect on our business, financial condition and results of operations.

Holders of our H Shares may be subject to PRC income tax obligations.

Under the current PRC tax laws and regulations, non-PRC resident individuals and non-PRC resident enterprises are subject to different tax obligations with respect to the dividends paid to them by us and the gains realized upon the sale or other disposition of H Shares.

Non-PRC resident individuals are required to pay PRC individual income tax at a 20% rate for the income derived in China under the ITT Law and its implementation guidelines. Accordingly, we are required to withhold such tax from dividend payments, unless applicable tax treaties between China and the jurisdiction in which the foreign individual resides reduce or provide an exemption for the relevant tax obligations. However, pursuant to the Circular on Certain Policy Questions Concerning Individual Income Tax (《財政部、國家稅務總局關於個人所得稅若干政策問題的通知》) (Cai Shui Zi [1994] No. 020) issued by the MOF and SAT on May 13, 1994, the income gained by individual foreigners from dividends and bonuses of enterprise with foreign investment are exempted from individual income tax for the time being. In addition, under the ITT Law and its implementation regulations, non-PRC resident individual holders of H shares are subject to individual income tax at a rate of 20% on gains realized upon the sale or other disposition of H shares. However, pursuant to Circular of Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from the Transfer of Shares (《關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) (Cai Shui Zi [1998] No. 61) issued by the MOF and the SAT on March 30, 1998, from January 1, 1997, the income of individuals from the transfer of the shares of listed enterprises continues to be exempted from individual income tax.

As of the Latest Practicable Date, no aforesaid provisions have expressly provided that individual income tax shall be levied non-PRC resident individual holders on the transfer of shares in PRC resident enterprises listed on overseas stock exchanges, and to our knowledge, no such individual income tax was levied by PRC tax authorities in practice. However, there is no assurance that the PRC tax authorities will not change these practices which could result in levying income tax on non-PRC resident individual holders on gains from the sale of H shares.

For non-PRC resident enterprises that do not have establishments or premises in China, and for those have establishments or premises in China but whose income is not related to such establishments or premises, under the EIT Law and its implementation regulations, dividends paid by us and gains realized by such foreign enterprises upon the sale or other disposition of H Shares are subject to PRC enterprise income tax at a 10% rate. In accordance with the Circular on Issues Relating to Withholding of Enterprise Income Tax by PRC Resident Enterprises on Dividends Paid to Overseas Non-PRC Resident Enterprise Shareholders of H

Shares (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) (Guo Shui Han [2008] No. 897) issued by SAT on November 6, 2008, the withholding tax rate for dividends payable to non-PRC resident enterprise holders of H Shares will be 10% and we intend to withhold tax at a rate of 10% from dividends paid to non-PRC resident enterprise holders of our H Shares (including HKSCC Nominees). Non-PRC resident enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty or arrangement will be required to apply to the PRC tax authorities for a refund of any amount withheld in excess of the applicable treaty rate, and payment of such refund will be subject to the PRC tax authorities' approval.

Despite the arrangements mentioned above, the PRC tax laws and regulations as well as the interpretation and application of such laws and regulations may change from time to time in the future which may adversely affect the value of your [**REDACTED**] in our H Shares.

It may be difficult to effect service of process upon us or our Directors, Supervisor or executive officers who reside in China or to enforce against them in China any judgments obtained from non-PRC courts.

All of our executive Directors, Supervisors and executive officers reside within China, and substantially all of our assets are located within China. Similar to the difficulties faced by most of the countries around the world on effecting service of process and enforcing judgment obtained from foreign countries, it may be difficult for [**REDACTED**] to effect service of process upon us or our executive Directors, Supervisors and officers inside China or to enforce against us or them in China any judgments obtained from non-PRC courts.

China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts of many other countries and regions. Therefore, recognition and enforcement in China of judgments of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

RISKS RELATED TO THE [REDACTED]

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

Prior to the completion of the [**REDACTED**], there has been no public market for our H Shares. There can be no guarantee that an active trading market for our H Shares will develop or be sustained after the completion of the [**REDACTED**]. The [**REDACTED**] is the result of negotiations between our Company, the [**REDACTED**] and the [**REDACTED**] (for themselves and on behalf of the [**REDACTED**]), which may not be indicative of the price at which our H Shares will be [**REDACTED**] following completion of the [**REDACTED**]. The market price of our H Shares may drop below the [**REDACTED**] at any time after completion of the [**REDACTED**].

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

The [**REDACTED**] price of our H Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in mainland China that have listed their securities in Hong Kong may affect the volatility in the price of and [**REDACTED**] volumes for our H Shares. A number of mainland China-based companies have listed their securities, and some are in the process of preparing for listing their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The trading performances of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards mainland China-based companies listed in Hong Kong and consequently may impact the [**REDACTED**] performance of our H Shares. Pursuant to the applicable PRC law, within the 12 months following the [**REDACTED**], all existing Shareholders (including the [**REDACTED**] Investors) could not dispose of any of the Shares held by them. Due to such lock-up requirement, the liquidity and [**REDACTED**] volume of the H Shares in the short term following the [**REDACTED**] may be significantly affected. These factors may significantly affect the market price and volatility of our H Shares, regardless of our actual operating performance.

Future sales or perceived sales of substantial amounts of our H Shares in the public market could have a material adverse effect on the price of our H Shares and our ability to raise additional capital in the future.

The market price of our H Shares could decline as a result of future sales of a substantial number of our H Shares or other securities relating to our H Shares in the public market, or the issuance of new shares or other securities, or the perception that such sales or issuances may occur. Future sales, or anticipated sales, of substantial amounts of our securities, including any future offerings, could also materially and adversely affect our ability to raise capital at a specific time and on terms favorable to us. In addition, our shareholders may experience dilution in their holdings if we issue more securities in the future. New shares or shares-linked securities issued by us may also confer rights and privileges that take priority over those conferred by the H Shares.

You will incur immediate and substantial dilution if the [REDACTED] of the [REDACTED] is higher than the net tangible asset value per H Share and may experience further dilution if we issue additional Shares in the future.

The [**REDACTED**] of the [**REDACTED**] is higher than the net tangible asset value per H Share immediately prior to the [**REDACTED**]. Therefore, purchasers of the [**REDACTED**] in the [**REDACTED**] will experience an immediate dilution in [**REDACTED**] consolidated net tangible asset value. There can be no assurance that if we were to immediately liquidate after the [**REDACTED**], any assets will be distributed to Shareholders after the creditors' claims. To expand our business, we may consider [**REDACTED**] and issuing additional Shares in the future. Purchasers of the [**REDACTED**] may experience dilution in the net tangible asset value per Share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset value per Share at that time.

Our Controlling Shareholders have significant influence over us and their interests may not always be aligned with the interest of our other Shareholders.

Immediately upon the completion of the [**REDACTED**], without taking into account any Shares which may be issued pursuant to the exercise of the [**REDACTED**], Dr. Dai, Ms. Wu, Beijing New Wisdom, Paradigm Investment, Paradigm Yinyuan, Paradigm Chuqi and Paradigm Tianqin, our Controlling Shareholders, will collectively control approximately [**REDACTED**]% of the voting power at our general meetings. Our Controlling Shareholders will, through their voting power at the Shareholders' meetings and their delegates on the Board, have significant influence over our business and affairs, including decisions in respect of mergers or other business combinations, acquisition or disposition of assets, issuance of additional Shares or other equity securities, timing and amount of dividend payments, and our management. Our Controlling Shareholders may not act in the best interests of our minority Shareholders. This concentration of ownership may also discourage, delay or prevent a change in control of our Company, which could deprive our Shareholders of an opportunity to receive a premium for the Shares as part of a sale of our Company and may significantly reduce the price of our H Shares.

Payment of dividends is subject to restrictions under PRC law.

Under PRC law, dividends may be paid only out of distributable profit, for which the PRC laws do not specify the applicable accounting principles. 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. 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. Our PRC Legal Advisor is of the view that after making up losses and appropriation of statutory reserves, we may distribute after-tax profits.

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 may 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.

There will be a gap of several days between pricing and [REDACTED] of our H Shares, and the price of our H Shares when trading begins could be lower than the [REDACTED].

The initial price to the public of our H Shares sold in the [**REDACTED**] is expected to be determined on the [**REDACTED**]. However, the Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be several business days after the [**REDACTED**]. As a result, [**REDACTED**] may not be able to sell or otherwise deal in the [**REDACTED**] during that period. Accordingly, holders of our H Shares are subject to the risk that the price of the Shares when trading begins could be lower than the [**REDACTED**] as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time [**REDACTED**] begins.

Certain statistics contained in this Document are derived from a third-party report, and are not independently verified by us. There can be no assurance of the accuracy or completeness of certain facts, forecasts and other statistics obtained from various government publications, market data providers and other independent third-party sources, including the industry expert report, contained in this Document.

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

You should read the entire Document carefully and should not rely on any information contained in press articles or other media regarding us and the [REDACTED].

We strongly caution you not to rely on any information contained in press articles or other media regarding us and the [**REDACTED**]. Prior to the publication of this Document, there has been press and media coverage regarding us, our business, our industry and the [**REDACTED**]. There may be additional media coverage regarding us, our business, our industry and the [**REDACTED**] subsequent to the date of this Document but prior to the completion of the [**REDACTED**]. Such press and media coverage may include references to certain information that does not appear in this Document, including certain operating and financial information and projections, valuations and other information. None of us or any other person involved in the [**REDACTED**] has authorized the disclosure of any such information in the press or media and none of us accepts any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this Document, we disclaim responsibility for it and you should not rely on such information.

We plan to conduct the offering and listing of A shares at an appropriate time after the [REDACTED], but there is no assurance that we will conduct such an A share offering, and the characteristics of the A share and H share markets are different.

We plan to conduct the offering and listing of A shares at an appropriate time after the [**REDACTED**], but there is no assurance that we will conduct such an A share offering, and the characteristics of the A share and H share markets are different. As of the Latest Practicable Date, we have not determined the size and scope of the contemplated A share offering and have not made any application to any recognized stock exchange in the PRC for approval for the listing of any A shares. There is no assurance we will conduct such an A share offering. If we do not complete the planned A share listing within a specific timeline, certain of our [**REDACTED**] Investors who hold Domestic Shares may be entitled to exercise their Domestic Share Divestment Rights. For details, see "History, Development and Corporate Structure – A Share Listing" and "History, Development and Corporate Structure – Rights of the [**REDACTED**] Investors". If an A share offering is conducted by us in the future, following the [**REDACTED**] and the proposed A share offering, our H Shares will be [**REDACTED**] on the Hong Kong Stock Exchange and our A Shares will be traded on the A Share market. Under current PRC laws and regulations, without approval from relevant regulatory authorities, H Shares and A shares are neither interchangeable nor fungible, and there is no trading settlement between the H share and A share markets. The H share and A share markets have different trading characteristics (including trading volume and liquidity) and investor bases, including different levels of retail and institutional participation. As a result of these differences, the [**REDACTED**] price of H Shares and A shares may not be the same. Moreover, fluctuations in A share price may affect H Share price, and vice versa. [**REDACTED**] should therefore not place undue reliance on the planned offering and listing of A shares in the future when evaluating an [**REDACTED**] in our H Shares.