PRINCIPAL RISKS FOR INVESTING IN THE [REDACTED]

The principal risk for a potential investment in the [**REDACTED**] *is that you may not be able to get back some or all of your original investments or you may not receive the returns you expected. This could happen for a number of reasons, for example if:—*

— the price at which you are able to sell your H Shares is less than the price you paid for them,
— you are unable to sell your H Shares at all, for instance because there are not enough buyers in the market,
— we do not pay dividends to the expected level, or at all, as our profits can be variable and this can adversely affect the amount of dividends paid,
— our operational and financial performance is worse than expected, or
— we become insolvent and are placed in receivership or liquidation.

The key risks specific to our business and other general market risks are set out below. These risks, were they to occur, could have a material adverse effect on our financial position or performance through reduced revenue, increased costs, reduced cash-flow, loss of customers, damage to reputation or a combination of these effects. Potential investors should consider such risk factors together with other information set out in this document.

RISKS RELATING TO OUR INDUSTRY

There are uncertainties in the future market demand of smart service robotic products and services and we cannot assure that we will continue to generate the same level of revenue and that our business will continue to grow.

According to Frost & Sullivan, the smart service robotic products and services industry in China and the rest of the world is characterized by evolving technologies, products and services and infrastructures, increasing competition, changing government regulations and industry standards, and changing market demands. Any changes of these factors may cause current or potential customers not to purchase our products or use our services. If the market for smart service robotic products and services does not develop as we expected or develops more slowly than we expected, our business, prospects, financial condition and operating results will be adversely affected.

Furthermore, it is part of our strategies to diversify and broaden our product and services offerings across different sectors and consumer-level use scenarios by utilizing our full-stack technologies. For instance, (i) in 2016, we launched our consumer-level robots and other hardware devices; (ii) in 2017, we launched our (a) education smart robotic products and services and (b) general service smart robotic products and services; and (iii) in late 2020, we launched our logistics smart robotic products and services. Demand for our products and services depends on the sector-specific market demand in industries where our products and services are sold and the general market demand for smart service robotic products and services. According to Frost & Sullivan, there is a positive attitude towards the use of education smart robotic products and services, and the national policy to promote robot education in primary and secondary schools, and thus the demand for programme writing education smart robotic products and services. Further, there is growth in demand for smart service robotic products and services in the manufacturing industry to increase efficiency and lower cost, and wellness and elderly care smart robotic products and services as a result of aging population in China and the rest of the world. However, there is no assurance that such positive attitudes will remain unchanged and the market demand will continue to grow or grow at the level as we expected, and our business and financial condition, results of operations and prospects would be materially and adversely affected as a result. For instance, with an aim to address the challenges faced by elderly care facilities, we began to launch our wellness and elderly care smart robotic products and services in small batches and began to sell in the second half of 2022. There is no assurance that we can replicate our success in other segments and achieve the same level of success as we intended. See "Business — Our Products and Services — Wellness and elderly care smart robotic products and services".

Developments in alternative technologies and products may adversely affect the demand for smart service robotic products and services.

Our smart service robotic products and services aim to assist humans in their daily life and work. Significant developments in alternative technologies and products which provides similar function may materially and adversely affect the growth and prospects of the smart service robotic products and services industry. For instance, according to Frost & Sullivan, the emergence of ChatGPT which is a large language model-based chat bot, may be a threat to our AI education software products as it provides an easy way for programmers to create code and fix flaws in their programs. Furthermore, Augmented Reality (AR), a technology that allows users to see digital information overlaid onto the real world, could potentially be used as an alternative to education smart robotic products and services as users can use AR to simulate virtual training environments without the need for physical robotic products. Given smart service robotic products are evolving rapidly and the path to strong smart service robotic products is still on the way and/or not certain, it is possible that new technologies and non-robotic products may emerge as customers' preferred alternative. Such new technologies and products may be more efficient, user-friendly and affordable than robotic products and may also render the use of robotic products obsolete and unnecessary in certain use scenarios. Moreover, it is difficult for the smart service robotic products and services to predict and actively prepare for the competition arising from the emergence of such new technologies and products because of their novel nature and the vast range of sectors which the smart service robotic products and services industry operates in. Any failure by the industry to develop new or enhanced technologies or processes to react to the such alternative products could result in the loss of competitiveness of the smart service robotic products and services industry, decrease in market expansion opportunities, decreased revenue, loss of talents, and a loss of market share to competitors. As a result, our business, prospects, financial condition and operating results will be adversely affected.

The growth of robotic and AI technologies commercialization or the usage of AI technologies in the smart service robotic products and services industry may not meet expectation, and our business, growth and prospects may be significantly affected as a result.

We segment our products and services by their targeted use scenarios of different sectors which include (i) Enterprise-level smart service robotic products and services which include (a) education smart robotic products and services; (b) logistics smart robotic products and services; and (c) other sector-tailored smart robotic products and services; and (ii) Consumer-level robots and other hardware devices. See "Business — Our Business Model" for details of our products and services offerings. As we aim to provide our smart service robotic products and services to more customers in different sectors and verticals, we may face challenges brought by the uncertain demand for the applications of robotic and AI technologies in the smart service robotic products and services industry. Whether potential customers accept our products and services depends, to a large extent, on their level of awareness of our products and services offerings and the widespread use of similar products and services. We cannot assure you that the trend of adopting and utilizing robotic and AI technologies by potential customers will continue in the future. In addition, with the continuous development of AI technology and commercialization of the relevant AI products and services, any potential future decrease in growth of the smart service robotic products and services industry in general or the price and profit margin of our smart service robotic products and services could result in material and adverse change to our business, growth and prospects.

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

The standards of and applications for robotic and AI technologies are constantly evolving. Any inappropriate use or flaws of such technologies, whether actual or perceived, intended or inadvertent, or committed by us or by other third parties, could have negative impact on our business and the public's acceptance of smart service robotic products or services.

Robotic and AI technologies are constantly evolving in terms of standards and applications. Similar to many disruptive innovations, robotic and AI technologies present risks and challenges that could affect user perception and public opinions, such as job loss threatened as a result of job automation, untrustworthy AI algorithm, unsafe robotic movements causing personal injury and property damage, misuse of deep learning by third parties for inappropriate purposes, bias applications or mass surveillance, and breach of AI-related ethical standards and data protection regulations. Any inappropriate, abusive or premature usage or undetected flaws or deficiencies of robotic and AI technologies, whether actual or perceived, whether intended or inadvertent, and whether by us or by third parties, may dissuade prospective customers from adopting our products and services and purchasing our products, may impair the general acceptance of smart service robotic products and services by the society, may attract negative publicity and may adversely impact our reputation. It may also 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 the regulators. Each of the foregoing events may in turn materially and adversely affect our business, financial condition and results of operations.

Negative publicity involving the smart service robotic products and services industry, our Group, our products and services, our Directors, Supervisors and senior management, and our business partners in the future may materially and adversely harm our business and reputation. There may be negative media coverage about our Group, the smart service robotic products and services industry and robotic and AI technologies in general. Such negative publicity may aggravate the public's misunderstandings of our technologies, products and services. However, we cannot preclude media reports of 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.

The smart service robotic products and services industry is becoming increasingly competitive. If we fail to compete successfully, our business, financial condition and results of operations may be materially and adversely affected.

According to Frost & Sullivan, smart service robotic products and services industry is becoming increasingly competitive. We primarily compete with other companies that also develop, conceptualize and commercialize smart service robotic products and services. For the industry sectors in which we provide smart service robotic products and services to, including education, logistics, general service and wellness and elderly care, we also compete against existing market players which may not be robot-focused or AI-driven in such industries. New comers to and existing market participants in the smart service robotic products and services industry may increase the level of competition we face, and they may include established large-scale multinational conglomerates and technology companies with better finance resources, sophisticated technological R&D capabilities and broad sales channels to develop directly competitive products and services. We may also face potential competition from global technology companies which seek to enter the China market, whether independently or through the formation of strategic alliances with, or acquisition of smart robotic technology companies in China. Increased competition could result in lower sales, price reductions, reduced margins and loss of market share for us. In response to the market competition, we may increase our investments in R&D, and marketing and sales. However, there is no assurance that such investments will be effective. If we fail to compete successfully, or if competing successfully requires us to take costly actions, our business, financial condition and results of operations could be adversely affected.

The full potential of the humanoid robotic market is yet to be fully realized and its growth depends on the development of robotic and AI technologies across multiple disciplines. If technological developments in any of these disciplines fail to meet our expectation, our business, growth and prospect may be adversely affected.

The growth potential of the smart service robotic products and services industry depends on the ability of its products and services to meet the prevalent market demands and customer preferences. In particular, according to Frost & Sullivan, the full potential of the humanoid robotic market is yet to be realized and significant efforts are required before humanoid robots can achieve full human resemblance to satisfy the more complicated customer demands and expectations. This in turn requires the successful development and application of various robotic and AI technologies across multiple disciplines that could enable different products and services to provide the human-like functionalities and features demanded by customers. However, the level of technical hurdles may vary across disciplines. Moreover, unexpected technical issues may be identified as smart service robotic products and services become more and more popular. To address these technical challenges, we may need to dedicate additional resources to conduct further R&Ds which may lengthen our product development cycle and increase our operational expenses. As a result, our business and financial condition, results of operations and prospects would be materially and adversely affected.

Smart service robotic products and services are usually purchased on an order by order basis and we did not enter into any long term contract with our major customers. If we fail to attain new customers and/or retain existing customers, our business, financial conditions and results of operation may be materially and adversely affected.

Smart service robotic products and services, such as smart service robots and their related software, are often designed to be capable of addressing the needs of customers for more than one year. It is also the common practice among enterprise customers to procure smart service robotic products and services through tendering on a case-by-case or project-by-project basis. For instance, we source new businesses from certain direct sales customers such as government educational bureaus, mainly through tendering based on opportunities which we acquired through our marketing initiatives (such as industry exhibition participations) or publicly available information published by potential customers. We did not enter into any long term contract with our major customers. Given such market practice, there is no assurance that users will make reorders or repurchases and upgrade of our products within a short period of time, or at all. There is also no assurance that the industry will be able to continuously attract new customers to create revenue growth, as this depends on a number of factors including but not limited to the level of acceptance by customers, the rate of expansion of use scenarios, and the changing customer preferences and demands. Furthermore, the use and implementation of smart service robotic products and services do not usually require continuous post-sales service and operational support. In particular, they are often designed to be used by customers on their own instead of by the products or services suppliers. Although there are attempts within the industry to promote the '*Robot-as-a-service*' ('Raas') business model, the market understanding of such a model is still immature and it takes time to cultivate a recurrent spending pattern among customers. If the industry is unable to achieve growth due to the mentioned limitations, our business, prospects, financial condition and operating results will be adversely affected.

RISKS RELATING TO OUR BUSINESS

If we fail to continue to research and develop or effectively respond to the evolving technology and market dynamics of the smart service robotic products and services industry, our business and financial condition, results of operations and prospects would be materially and adversely affected.

The smart service robotic products and services industry is characterized by constant changes and developments, including rapid technological evolution, frequent introductions of new products and services, continual shifts in customer demands and constant emergence of new industry standards and practices. Therefore our success will depend, in part, on our ability to constantly anticipate the emergence of new technologies, standards and practices and assess their market acceptance and application, and respond to these changes and developments in a cost-effective and timely manner. Our R&D efforts is part of our long-term growth strategy and is key to our success. For FY2020, FY2021, FY2022 and 6M2023, we incurred R&D expenses of RMB428.8 million, RMB517.1 million, RMB428.3 million and RMB224.3 million, respectively, accounting for 57.9%, 63.3%, 42.5% and 85.9% of our total revenue during the respective years/period. We will need to continuously improve and commercialize new products and services and develop new robotic and AI technologies to address evolving customer needs and to compete against market participants effectively. If we fail to research and develop, our established position in the smart service robotic products and services industry could be damaged, which in turn would materially and adversely affect our business, financial condition, results of operations and prospects.

We continue to invest significant resources in, among other things, (i) identifying unmet or under-served customer needs, (ii) maintaining an established position in the smart service robotic products and services industry in the PRC, (iii) developing new robotic and AI technologies, and (iv) attracting talented employees. We have invested and intend to continue investing significant resources in technologies to bolster our products and services offerings with enhanced functionalities to be used in a wider range of use scenarios. However, we may not be able to leverage new technologies effectively or adapt our products and services to meet customers' needs or emerging industry standards, and the approach of our technological developments might not align with the market trends and demands. Our investments in R&D, which could be costly, may not generate the anticipated economic benefits in the near term, or at all, in which case our business, results of operations, financial condition and prospects may be materially and adversely affected. If we are unable to keep up with the technological developments or if new technologies render our technologies, products or services obsolete, customers may no longer be attracted to our products and services, which could cause material adverse impact on our business and financial performance.

The large-scale commercialization of smart service robotic products and services may fall short of our expectation, which may lead to unsatisfactory market development and affect our business operation.

We may face difficulties and obstacles in the process of exploring the large-scale commercialization of our products and services. The current use scenario of humanoid robots is still limited and the manufacturing costs remain high. During the Track Record Period, we sold (i) a life-sized humanoid robot Walker-2 for educational purposes in FY2021, (ii) (a) a Walker, a Walker-1, a Walker-2 and two units of Walker X for educational purposes, (b) a Walker-2 for general commercial purposes such as greeting and display and (c) two units of Walker X for general commercial purposes such as greeting and guiding in FY2022, and (iii) a Walker-2 for educational purposes in 6M2023 and have recognized revenue of RMB8.8 million, RMB48.7 million and RMB2.3 million in FY2021, FY2022 and 6M2023 from the Walker series, respectively. In addition, weak supply chains, insufficient batch production progress, inefficient and inadequate production equipment and quality controls, and other unexpected risks may occur during the large-scale commercialization of humanoid robots-related products and services. As such, the large-scale commercialization process of our humanoid robots-related as well as our other products and services may not be as smooth as we expected, which may lead to unfavorable market position and less competitiveness in the future and affect our business and results of operations.

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

In FY2020, FY2021, FY2022 and 6M2023, we had operating losses of approximately RMB595.6 million, RMB882.5 million, RMB953.3 million and RMB542.2 million, respectively. We had net losses for the year/period of approximately RMB707.0 million, RMB917.5 million, RMB987.4 million and RMB547.9 million, respectively. The net losses were primarily due to the decreasing trend of our gross profit margin and the substantial expenditures in relation to (i) our R&D expenses incurred to enhance our core technologies and product and services offerings to maintain our established position in the smart service robotic products and services market; (ii) our selling and marketing expenses incurred to enhance our brand reputation and expand our customer and end-user base, and (iii) our general and administrative expenses. We may continue to incur net losses in the future, as we are in the stage of expanding our business and operations in the rapidly growing smart service robotic products and services market, and are continuously investing in research and development. We believe that our future revenue growth will depend on, among other factors, our ability to develop new technologies, enhance customer experience, establish effective commercialization strategies, compete effectively and successfully and develop new products and services. Accordingly, you should not rely on the revenues of any prior period as an indication of our future performance. We also expect our costs and expenses to increase in future periods as we continue to expand our business and operations, and invest in research and development. 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 expenses, we may continue to incur significant losses in the future and may not be able to achieve or subsequently maintain profitability.

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

We experienced significant cash outflows from operating activities during the Track Record Period which amounted to RMB602.6 million, RMB680.7 million, RMB543.5 million and RMB526.5 million, respectively. Our net cash outflows are attributable to our R&D expenses, selling and marketing expenses, general and administrative expenses to develop and promote our new products and services. We plan to continue to invest heavily in our R&D efforts, as well as our sales and marketing efforts, and incur significant capital expenditures. However, it typically takes a long period of time to realize returns on such investments, if at all. As such, we expect to continue to have net cash outflow from operating activities in the near future.

Our negative operating cash flows could adversely affect our operations by reducing the amount of cash available to meet the cash needs for operating our businesses and fund our investments in our business innovation and expansion. If our future operating cash flows fails to improve to a level to sufficiently cover our overall cash needs, we will have to rely on external debt or equity financing, and we cannot assure you that we will be able to obtain external financing in amounts or on terms acceptable to us, if at all.

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

Our financial performance and ownership interests of our Shareholders may be affected by share-based compensation and establishment of new share incentive plan

We and Mr. Zhou have established share incentive plans to grant restricted shares units ("**RSUs**") to our employees and other designated persons for the purpose of attracting and retaining suitable personnel to enhance the development of our Group. Certain RSUs granted to our Group's employees will only vest at the end of certain periods after a successful [**REDACTED**] of our Company's shares or on certain dates. The fair value of RSU granted to employees under the RSU scheme is recognized as an expense over the vesting period, being the period over which all of the vesting conditions are satisfied. The fair value is determined at the grant date. During the Track Record Period, our share-based compensation amounted to RMB64.5 million, RMB156.4 million, RMB204.3 million and RMB179.5 million.

Our financial performance and ownership interests of our Shareholders may be affected by the share-based compensation as the expenses associated with share-based compensation will decrease our net profit and the establishment of new share incentive plan may potentially dilute the ownership interests of our Shareholders. On the other hand, if we reduce the amount of RSUs or other share-based compensation awards, we may not be able to attract or retain key personnel by offering them incentives linked to the value of our Shares.

If we determine our intangible assets or goodwill to be impaired, it would adversely affect our business, financial performance and results of operations

During the Track Record Period, our intangible assets, which mainly consisted of goodwill and customer contracts and relationships acquired through acquisition of Shanghai UBJ and Jiangsu Tianhui in FY2022, purchased software and trademarks. As of December 31, 2020, 2021, 2022 and June 30, 2023, our intangible assets amounted to RMB6.2 million, RMB3.2 million, RMB86.7 million and RMB84.4 million, respectively. We had goodwill of RMB75.6 million as of December 31, 2022 and June 30, 2023, from the acquisition of Shanghai UBJ for its education smart robotic products and services business and Jiangsu Tianhui for us to further expand and strengthen the competitiveness of our logistics smart robotic products and services business. See "Financial Information — Description of Certain Items of Consolidated Statements of Financial Position — Intangible assets" for details.

Impairment review on the goodwill has been conducted by our management as at December 31, 2022 and June 30, 2023 according to HKAS 36 "Impairment of assets". We carried out impairment testing on goodwill by comparing the recoverable amounts of each cash generating unit ("**CGU**") to their carrying amounts. Our management leveraged their extensive experiences in the industries and prepared the forecast based on the past performance and their expectation of future business projection and market developments.

Our Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy. In determining whether goodwill is impaired, our Group estimates the recoverable amount of CGU to which goodwill has been allocated. The recoverable amount of a CGU is determined based on value in use ("**VIU**") calculations which require the use of assumptions, including growth rate, gross margin and pre-tax discount rate. Our estimates of the future cash flows from Shanghai UBJ and Jiangsu Tianhui may be susceptible to downward revision as a result of factors adversely affecting the global smart service robotic products and services industry generally, including general decreases in growth rates and margins, as well as factors specific to our business' growth rates, margins and operating expenses. If we record an impairment loss as a result of these or other factors, it could have an adverse effect on our financial position for the relevant period and our business prospects.

Impairment losses of prepayments, deposits and other receivables would adversely affect our business, financial performance and results of operations

Our prepayments mainly include prepayments for inventories and operating expenses whereas our deposits mainly include deposits paid for guarantees of product quality and right-of-use assets. As of December 31, 2020, 2021, 2022 and June 30, 2023, our prepayment, deposits and other receivables amounted to RMB282.9 million, RMB379.1 million, RMB229.1 million and RMB376.1 million, respectively.

We measure impairment of other receivables as either 12-month expected credit loss or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses. The assessment of impairment losses involves a significant degree of management judgments as well as estimates in determining the key assumptions. Such management's estimates and the related assumptions have been made in accordance with information available to us, such estimates or assumptions are subject to further adjustment if new information becomes known. Therefore, there is uncertainty on the prediction of the movement of impairment of prepayments, deposits and other receivables. Significant impairment losses on prepayments, deposits and other receivables may have a material adverse effect on our financial condition and results of operations.

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.

For FY2020, FY2021 and FY2022, we experienced an overall increase in revenue. Our revenue increased by 10.4% from RMB740.2 million in FY2020 to RMB817.2 million in FY2021. Our revenue increased by 23.4% from RMB817.2 million in FY2021 to RMB1,008.3 million in FY2022. Our revenue then decreased by 7.9% from RMB283.5 million in 6M2022 to RMB261.1 million in 6M2023. However, historical growth may not be indicative and there is no assurance that we will be able to maintain our growth rates in future periods. Our growth rates depend on, among other things, the overall economic growth in China and globally, technology development of the smart service robotic products and services industry, awareness of enterprises to deploy smart service robotic products and services and AI-driven applications, our investment in technology development, our ability to retain and attract new customers and end-users of our products and services, and our ability to manage costs and enhance operational efficiency. There is no assurance that we will be able to effectively implement our business strategies and maintain our business growth. Furthermore, we have not always achieved the growth rate in line with the different sectors of the smart service robotic products and services industry which we had business operations in during the Track Record Period. If the market does not develop as we expect or if we fail to address the dynamic market needs, our results of operations and financial performance would be materially and adversely impacted.

We have been and intend to continue investing heavily on our R&D and such investments may not generate the results we expect to achieve.

Our technological R&D capabilities and core robotic and AI technologies that are consumer grade and mass market level are critical to our success. We have been investing substantially on our R&D efforts. For FY2020, FY2021, FY2022 and 6M2023, our R&D expenses amounted to RMB428.8 million, RMB517.1 million, RMB428.3 million and RMB224.3 million, respectively. Such R&D cost represented approximately 57.9%, 63.3%, 42.5% and 85.9% of our total revenue in the same years/period, respectively, and are expected to increase further in the future. The smart service robotic products and services industry we operate in is subject to rapid technological changes and are evolving quickly in terms of technological development. We need to invest significant resources, including financial resources, in R&D to make technological advances in order to make our products and services competitive in the market. As a result, our R&D capabilities will remain important to our business operations. However, R&D activities are inherently uncertain, and we might encounter practical difficulties in developing, conceptualizing and commercializing our R&D results. Our significant expenditures on R&D may not generate corresponding benefits. Given the fast pace of which the technologies of smart service robotic products and services industry have been and will continue to be developed, we may not be able to develop or upgrade our technologies in a timely and cost-effective manner, or at all. New technologies in the smart service robotic products and services industry could render our existing or future technologies, R&D capabilities, core robotic and AI technologies, products or services obsolete or unattractive, thereby limiting our ability to recover related R&D costs, which could result in a decline in our revenues, profitability and market share.

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

We cannot assure you that we will be able to successfully expand in the future. We began to launch our wellness and elderly care smart robotic products and services in small batches and began to sell in the second half of 2022. Expanding offering categories into areas such as wellness and elderly care involves new risks and challenges. Our lack of familiarity with new verticals may make it more difficult for us to keep pace with the evolving customer demands and preferences. In addition, there may be one or more existing market leaders in any vertical that we decide to expand into against whom we may have difficulty in competing. We may be required to develop new supply-chain relationships and capabilities. We will need to comply with new laws and regulations applicable to these businesses. Expansion into any new vertical and development of new products and services may place significant strain on our management and resources and incur substantial R&D and other costs and expenses before generating any revenues, and failure to expand successfully could have a material adverse effect on our business and prospects.

Our business depends substantially on the continuing efforts of our management team, as well as a competent pool of talents that supports 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.

The success of our business depends on the continued service and efforts of our directors and senior management including our founder, Mr. Zhou Jian. If any of our Directors or senior management becomes unable or unwilling to continue to contribute their services to us, there can be no assurance that we would be able to find suitable replacements in a timely manner or at all. The loss of services of such Directors or senior management or the inability to identify, hire, train and retain other qualified and managerial personnel to replace them in the future may materially and adversely affect our business, financial condition, results of operations and prospects.

Additionally, our future success also depends on our ability to attract, recruit and train qualified employees and retain existing key personnel. In particular, we rely on our top in-house R&D team to develop our core technologies, products and services, and our experienced sales and marketing personnel to maintain relationships with our customers and end-users of our products and services. In order to compete for talents, we may need to offer higher compensation, better trainings and more attractive career opportunities, employees share incentives schemes and other benefits to our employees, which may be costly and time-consuming. We cannot assure you that we will be able to attract or retain a qualified workforce necessary to support our future growth. Furthermore, any disputes between us and our employees or any labor-related regulatory or legal proceedings may divert management and financial resources, negatively impact staff morale, reduce our productivity, or harm our reputation and future recruiting efforts. In addition, our ability to train and integrate new employees into our operations may not meet the demands of our growing business. Any of the foregoing issues related to our workforce may materially and adversely affect our operations and future growth.

Our largest group of customers are our customers in the education sector who purchase our education smart robotic products and services, and the failure to attract more customers and expand to other industry sectors could materially and adversely affect our business.

During the Track Record Period, our largest revenue source comes from sales of our education smart robotic products and services which accounted for approximately 82.7%, 56.5%, 51.2% and 29.0% of our revenue, respectively. Accordingly, our revenue could be materially and adversely impacted by the changing demand, purchasing decisions and buying habits of these customers and the end-users of our products and services or any other potential customers and end-users in the education sector. In particular, educational institutions may not repurchase our products and services in a short timeframe as our smart service robotic products and services do not usually need to be replaced frequently. If any of our significant customers decide to purchase less products and/or services than they have in the past, or not to purchase products and/or services from us at all, or may decide not to renew existing contracts at all, our revenue may decline and our financial condition and results of operations may be adversely affected. Further, we need to go through a bidding process in order to secure contracts from public schools or educational authorities in China. The number of projects available for bidding may reduce and we may not succeed in bidding for new projects.

We are also subject to various factors which are beyond our control and could impede our ability to maintain or increase our revenue from sales of education smart robotic products and services to enterprise-level customers, including but not limited to decrease in government funding to schools, changes in fiscal or contracting policies of schools and other educational institutions, change in acceptance of our products and services by educational authorities and schools, and new laws, regulations and policies introduced to the education sector in China which are unfavorable to the application of education smart robotic products and services. Any occurrence of the foregoing could have a material adverse effect on our business and financial performance.

A substantial portion of our revenue from our logistics smart robotic products and services were derived through one of our top five customers during the Track Record Period.

During the Track Record Period, a substantial portion of our revenue from our logistics smart robotic products and services were derived through MAE Group, which was one of our top five customers in FY2021 and FY2022. Revenue contributed by MAE Group in respect of our logistics smart robotic products and services amounted to RMB12.7 million, RMB175.0 million, RMB251.2 million and RMB71.4 million in FY2020, FY2021, FY2022 and 6M2023, respectively, which accounted for 97.6%, 91.7%, 95.4% and 93.0% of the revenue from our logistics smart robotic products and services. For details of the MAE Arrangements, please refer to "Business — Overlapping of Customers and Suppliers — Overlapping relationship with MAE Group". If we fail to obtain new contracts from MAE Group or maintain our business relationship with them, our business operations (logistics smart robotic products and services) and financial results will be materially adversely affected. In addition to growing and maintaining our business with MAE Group, the success of our logistics smart robotic products and services segment also depends on our ability to acquire new customers. We cannot assure you that we will be able to attract new customers for our logistics smart robotic products and services segment in the future.

Our sales are affected by seasonal fluctuations.

Our products are sold on an order-by-order basis and our sales are affected by seasonal fluctuations. Typically, since the financial year of most of our enterprise-level customers (which amounted to over 85% of our revenue for FY2020, FY2021 and FY2022) ends on December 31 of the calendar year, our sales peak in the fourth quarter and most of our revenue are generated in this period. For example, our revenue from our logistics smart robotic products and services are generally higher in the fourth quarter every year because our customers generally complete the inspection and recognition of progress of projects by the fourth quarter (i.e. their respective year-end), according to Frost & Sullivan. On the other hand, our revenue is generally lower in the first quarter due to fewer working days in the first quarter as a result of the longer statutory holidays for the Spring Festival. There is no assurance that our customers' purchase orders and delivery will be consistent with our expectations over each season. Accordingly, our results of operations may vary from period to period. If we cannot effectively plan our production and delivery schedules and secure purchase orders from our customers during non-peak seasons, our business, financial condition and results of operations may be adversely affected.

We had a concentration of top five customers during the Track Record Period.

The sales to our top five customers in each year/period during the Track Record Period amounted to RMB492.6 million, RMB426.7 million, RMB720.9 million and RMB116.3 million, respectively, representing 66.5%, 52.2%, 71.5% and 44.5% of our total revenue for the respective years/period. See "Business — Our customers — Customers" for further details. We cannot assure you that there will not be any dispute between our major customers and us, or that we will be able to continue to generate substantial amount of revenues from them in each financial year, which may adversely affect our business and profitability. In addition, if any of such customers default or delay on their payment or settlement of our trade and other receivables, our liquidity, financial condition and results of operations may be adversely affected.

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

We have invested in certain businesses in recent years including the acquisition of additional 47.8% equity interest of Shanghai UBJ at an aggregate consideration of RMB209.76 million in July 2022 and the acquisition of 100% equity interest of Jiangsu Tianhui at an aggregate consideration of RMB69.92 million in December 2022. We expect to continue to evaluate and consider a wide array of investments and acquisitions that we believe can extend and solidify our established position as part of our overall business strategy. We may be engaged in discussions or negotiations with respect to one or more of these types of transactions. These transactions involve significant challenges and risks, including:

- difficulties integrating into our operations the personnel, operations, products and services;
- robustness of technology, internal controls and financial reporting of companies we acquire;
- disrupting our ongoing business, distracting our management and employees and increasing our expenses;
- for investments over which we do not obtain management and operational control, we may lack influence over the controlling partner or shareholder, which may prevent us from achieving our strategic goals in such investment;
- new regulatory requirements and compliance risks that we become subject to as a result of acquisitions in new industries or otherwise;
- actual or alleged misconduct or non-compliance by any company we acquire or invest in (or by its affiliates) that occurred prior to our acquisition or investment, which may lead to negative publicity, government inquiry or investigations against such company or against us;
- unforeseen or hidden liabilities or costs that may adversely affect us following our acquisition of such targets;
- the risk that any of our pending or other future proposed acquisitions does not close;
- the costs of identifying and consummating investments and acquisitions;
- the use of substantial amounts of cash and potentially dilutive issuances of equity securities;
- significant reduction of the value of our investments at fair value through profit or loss; and
- challenges in achieving the expected benefits of synergies and growth opportunities in connection with these acquisitions and investments.

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

We failed or are expected to fail to fulfill certain conditions under the cooperation agreements we entered into with certain local governments and management committees and we may be required to return the subsidies received and compensate any losses that may incur.

During the Track Record Period, we were a party to a series of government cooperation projects and entered into agreements with various local governments and management committees. In particular, we have entered into a number of such projects with local governments and/or management committees, pursuant to which, for certain government cooperation projects, they agreed to provide us with subsidies in the form of rental, site maintenance and repair, marketing, tax and project support to support our various technology infrastructure development projects, provided that we fulfill a number of conditions including but not limited to achieving certain investment scale, production output, tax payments and project completion targets.

As of the Latest Practicable Date, we failed or are expected to fail to fulfill the conditions under the agreements in relation to 15 government cooperation projects. For details, please refer to the section headed "Business — Government Cooperation Projects" in this document.

As of the Latest Practicable Date, in relation to those agreements which have not been terminated, the relevant local governments and management committees have not demanded us to return the subsidies we received, but we cannot assure that they would not enforce the respective agreements in the future and require us to return the subsidies and compensate any losses that they may incur. Under such circumstances, there is a risk that (i) we may be required to return the total government grants and leasing concessions received pursuant to the respective agreements in relation to such government cooperation projects, which amounted to RMB118.5 million and RMB7.3 million as of the Latest Practicable Date, respectively and/or (ii) the relevant local governments and management committees may commence legal proceedings against us for breach of contract. No provisions were made in relation to the government grants received for which our Group has failed to or is expected to fail to fulfil the conditions since they have been accounted for as other payables and accruals. See "Appendix I — Accountant's Report — II. Notes to the Historical Financial Information — 33. Other payables and accruals" for details. No provisions were made in relation to the leasing concessions as either the risk of our Group being held liable for such repayment of leasing concessions is very low or the monetary amount of such repayment is not material.

If the relevant local governments or management committees demand for the return of any subsidies we received pursuant to the above-mentioned government cooperation projects, there may be a negative impact on our cash flow and could adversely affect our business, financial condition, results of operations and prospects. If the relevant local governments and management committees commence legal proceedings against us for breach of contract, defending against such legal proceedings is costly and time consuming and may divert management's time and other resources from our business and operations, and the outcome of such claims and proceedings cannot be predicted. If a judgment, a fine or a settlement involving a payment of a material sum of money were to occur, or injunctive relief were issued against us, it may result in significant monetary liabilities and may materially disrupt our business and operations, and our business, financial position and results of operations could be materially and adversely affected.

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

In FY2020, FY2021, FY2022 and 6M2023, we recognized government grants of RMB66.2 million, RMB59.5 million, RMB26.6 million and RMB11.2 million, respectively. However, the timing, amount and conditions of government subsidies are within the sole discretion of the governmental authorities. In addition, there can be no assurance that we could fully satisfy these conditions, and it is possible that such governmental authorities may stop providing subsidies to us, or require us to repay part or all of the government subsidies we previously received. Any reduction, elimination, repayment or other negative trend in government subsidies resulting from our failure to meet such conditions could adversely affect our business, financial condition, results of operations and prospects.

We may be unable to prevent or detect bribery or corruption or other misconducts by our employees, customers, suppliers or other third parties, which may materially and adversely affect our business, prospects, reputation, and growth potential.

We may not be able to detect bribery, corruption or other misconducts by our employees, customers, suppliers or other third parties. These activities may lead to exposure to prosecution, fines, other penalties or liabilities as imposed by the relevant government authorities. While we have adopted internal control policies with a view to prohibiting any form of bribery and corruption, provided anti-bribery and corruption training to our employees, incorporated anti-bribery and corruption policies into employment contracts, and established reporting channel for employees and external third parties to report acts of bribery and/or corruption and encourage anonymous whistleblowing, we cannot guarantee that these measures will effectively prevent and detect bribery, corruption or other misconducts. As such, failure to detect and prevent bribery and corruption of our employees or other third parties may materially and adversely affect our business, prospects, reputation, and growth potential.

We cannot guarantee that our new business initiatives and [REDACTED] plan will be successfully implemented or generate revenue and profit as we expected.

As an established provider of smart service robotic products and services in China, we continue to execute a number of growth initiatives and strategies plans to diversify our business. For examples, we launched *ADIBOT* in 2021 in response to the market demand for Ultraviolet-C ("**UV-C**") disinfection devices amid the COVID-19 pandemic. We further launched the anti-pandemic models of Cruzr, ATRIS and AIMBOT with additional functionalities including body-temperature measurement and mask detection. In view of the increasing aging population in China, we launched our wellness and elderly care smart robotic products and services in the second half of 2022. We also plan to use our [**REDACTED**] from the [**REDACTED**] to enhance our core technologies, upgrade our R&D laboratories, expand our sales channels and purchase various systems to improve our operational efficiency. See "Business — Our Business Strategies" and "Future Plans and Use of [**REDACTED**]" for further details. However, expanding into new businesses involves risks and challenges. These business initiatives are new and evolving, some of which may prove unsuccessful. It may also take a longer time than expected for us to develop the technologies and build market acceptance of our products and services, and we may not have sufficient experience in executing these new business initiatives effectively. Further, we will incur substantial costs on R&D, sales and marketing, personnel and compliance for developing, conceptualizing and commercializing our new products and services. We cannot assure you that any of these new business initiatives will achieve our expected market acceptance and generate revenue or profit. If our efforts fail to enhance our monetization abilities, we may not be able to maintain or increase our revenues or recover any associated costs, and our business and results of operations may be materially and adversely impacted.

Our business is dependent on the strengths and market acceptance of our brand. If we fail to maintain, promote and enhance our brand, our business prospect may be adversely affected.

We believe our brand UBTECH is an integral part of and critical to our success. Maintaining and enhancing our brand name will largely depend on our ability to continue to provide competitive, quality, well-designed, useful and reliable products and services to meet market demands. However, we cannot assure you that we will be able to maintain and enhance our brand name.

We believe the importance of recognition of our brand will increase when competition increases. However, we cannot assure you that our marketing activities such as participating industry conferences and industry exhibitions will be successful or that we will be able to achieve the promotional effect we expect or at all. If we are unable to maintain our reputation, enhance our brand recognition or promote our products and services, or if we incur excessive expenses in this effort, our business and growth prospects may be materially and adversely affected.

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

We have devoted substantial resources to the development of our technology and know-how. There is no assurance that these agreements will not be breached, that we will have adequate remedies for any breach in time or at all, or that our self-developed 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 trade secrets and proprietary rights, and failure to obtain or maintain trade secret and proprietary information protection could adversely affect our competitive position.

We may not be able to prevent unauthorized use of our intellectual properties, which could harm our brand and reputation.

As of June 30, 2023, our Group held more than 1,800 registered robotic and AI-related patents, of which more than 380 are overseas patents. We consider our patents, copyrights, trademarks, trade secrets and other intellectual properties to be critical to our success. We rely on a combination of copyright, trademark, patent and other intellectual property laws, trade secret protection and confidentiality, and other agreements with our employees and third parties and other measures to protect our intellectual property rights. Please see "Business — Risk Management and Internal Control — Compliance and intellectual property rights risk management" for details. However, we cannot assure you that they will always comply with these terms. Relevant agreements may not effectively prevent disclosure of our intellectual properties and confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of our intellectual properties and confidential information.

Despite our efforts to protect our intellectual property rights, unauthorized parties may attempt to copy or otherwise obtain and use our intellectual properties. Monitoring for infringement or other unauthorized use of our intellectual property rights may be difficult and expensive, and such monitoring may not be effective, and litigation may be necessary to enforce our intellectual property rights. Relevant litigation in the future can result in substantial cost and diversion of resources, and could disrupt our business and materially and adversely affect our financial condition and results of operations.

We may be subject to intellectual property infringement claims or other allegations, which could 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 patents, trademarks, copyrights or other intellectual property rights held by third parties. We may from time to time be subject to proceedings and claims relating to intellectual property rights in the future. We cannot assure you that holders of patents and other intellectual properties purportedly relating to some aspect of our technology infrastructure or business, if any such holders exist, would not seek to enforce such patents and other intellectual properties against us in China or any other jurisdictions. 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 relatively costly and time consuming and may divert management's time and other resources from our business and operations. If a judgment, a fine or a settlement involving a payment of a material sum of money were to occur, or injunctive relief were issued against us, it may result in significant monetary liabilities and may materially disrupt our business and operations by restricting or prohibiting our use of the intellectual property in question, and our business, financial position and results of operations could be materially and adversely affected.

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 existing and potential customers and divert them away from our products and services.

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 our existing and potential customers and end-users from our products and services to theirs. It is difficult to prevent such unfair competition activities, and if we fail to do so, competitors and other third parties may drive existing and potential customers and end-users away from our products and services, which could harm our business and materially and adversely affect our results of operations.

We may be subject to complex and evolving laws and regulations regarding data security and privacy protection, which could subject us to significant legal, financial and operational consequences if we fail to comply with these laws.

Most of our business operations are based in China and over 92.2%, 92.2%, 87.0% and 73.3% of our revenue was generated in the PRC market in FY2020, FY2021, FY2022 and 6M2023, respectively. 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.

On November 14, 2021, the Cyberspace Administration of China (the "CAC") publicly solicited opinions on the Draft Data Security Regulations. According to the Draft Data Security Regulations, data processors shall, in accordance with the relevant state provisions, apply for cybersecurity review when carrying out the following activities: (i) the merger, reorganization or separation of Internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests, which affects or may affect national security; (ii) data processors that handle the personal information of more than one million people seeking a foreign listing (國外上市); (iii) data processors seeking a listing in Hong Kong, which affects or may affect national security; and (iv) other data processing activities that affect or may affect national security. However, the Draft Data Security Regulations provide no further explanation or interpretation as to what "affects or may affect national security". As advised by our Special PRC Legal Adviser, (i) the Draft Data Security Regulations have not been formally adopted and are subject to change and further guidance; and (ii) the relevant PRC government authorities may have considerable discretion in the interpretation as to what "affects or may affect national security".

On December 28, 2021, the CAC promulgated the Cybersecurity Review Measures, which became effective on February 15, 2022 and stipulates that Critical Information Infrastructure Operators purchasing network products and services that affect or may affect national security, or Network Platform Operators holding over one million users' personal information when seeking a foreign listing (國外上市), must apply with the Cybersecurity Review Office of the CAC for a cybersecurity review.

Given that the PRC laws and regulations in relation to cybersecurity and data and personal information protection are still evolving, it is uncertain whether the Draft Data Security Regulations will become effective in its current form, and whether any new legislation, regulations or interpretations concerning cybersecurity and data and personal information protection may be promulgated or adopted in the future. As a result, we cannot rule out the possibility that additional compliance requirements may be imposed on us as a result of the above.

In particular, the Draft Data Security Regulations had not become effective as of the Latest Practicable Date and their operative provisions and the anticipated adoption or effective date may be subject to substantial uncertainty. Therefore, it is difficult for us to predict the actual impact of these regulations, if any, and we will closely monitor and assess any development in the rule-making process and take corresponding measures to ensure compliance. If our activities are deemed as "affect or may affect national security," under such regulations when they are fully implemented, we may be subject to a cybersecurity review and failure to conduct such review could result in warnings and fines; and if we fail to curtail or have caused severe consequences such as endangering data security, we may be further subject to suspension of our non-compliant operations, revocation of relevant approvals or business licenses or other sanctions, which could materially and adversely affect our business and results of operations.

Additionally, these and other similar legal and regulatory developments in the PRC could affect our business operation. We may also incur relatively high costs to comply with such laws and regulations and to establish and maintain relevant internal compliance policies and infrastructures.

As we and our business partners expand businesses overseas, our products and services will serve more customers in countries outside of China. Accordingly, we may be required by business partners to upgrade our products and services to help them comply with laws and regulations regarding data security and privacy protection in multiple jurisdictions. Such laws and regulations may vary significantly from jurisdiction to jurisdiction and are generally complex and constantly evolving, with uncertainty as to their interpretation and application. We may incur increasing costs or may be required to change our business practices in compliance with data security and privacy protection laws and regulations from time to time, and any non-compliance may subject us to significant penalties.

Due to the complexity and evolving nature of the relevant laws and regulations, we cannot assure you that our privacy and data protection measures are, and will be, sufficient under applicable laws and regulations. Please see "Business — Risk Management and Internal Control — Data Privacy and Security Risk Management" for details. The integrity of our data security and privacy protection measures is also subject to system failure, interruption, inadequacy, security breaches or cyber-attacks. Non-compliance could result in proceedings against us by governmental and regulatory entities, customers, end-users, data subjects or others. Such actual or alleged failure could damage our reputation, deter current and potential customers and end-users from using our products and services and could subject us to significant legal, financial and operational consequences. Meanwhile, legal and regulatory developments could also 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 products and services.

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

The technology underlying our smart service robotic products and services is inherently complex and may contain material defects or errors, particularly when new services or products are first introduced, when new features or functionalities are released. There can be no assurance that our existing smart service robotic products and services will not contain defects or errors. Any real or perceived errors, failures, vulnerabilities, or bugs in our services or products could result in negative publicity or lead to performance issues, all of which could harm our business. It may be costly and time consuming in correcting such defects or errors. 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.

We may face risks associated with our reliance on certain artificial intelligence and machine learning models.

In order to increase the ability of our smart service robotic products to interact with humans and achieve a higher level of human resemblance, we utilize artificial intelligence machine learning ("AI/ML") in our core technologies such as our voice interaction, computer vision, and robotic motion planning and control technologies. The AI/ML models that we use are trained using various data sets and are obtained through self-collection, open-source channels, or purchased from third parties. If the AI/ML models are incorrectly designed, the data we use to train them is incomplete, inadequate, or biased in some way, or if we do not have sufficient rights to use the data on which our AI/ML models rely, the performance of our products, services, and business, as well as our reputation, could suffer or we could incur liability through the violation of laws, third-party privacy, or other rights, or contracts to which we are a party.

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

The competitive position of our products and services depends in part on their ability to operate with products and services of third parties. We intend to facilitate the compatibility of our products and services with various third-party hardware, software, and infrastructure by maintaining and expanding our business and technical relationships. Our ROSA, our developed robotics application framework, can access mainstream IoT platforms to realize the interconnection between robots and IoT devices. As we make our products and services available across a variety of IT systems and devices, we depend on the compatibility of our products and services with mainstream devices and IT systems that we do not control. For example, if a third-party were to develop software or services that compete with ours, that provider may choose not to support one or more of our products and services. In addition, in the future, one or more technology companies may choose not to support the operation of their hardware, software, or infrastructure that our products and services are compatible with, or our products and services may not support the capabilities needed to operate with such hardware, software, or infrastructure. Any changes to technologies used in our products and services to existing features that we rely on, or to IT systems which make it difficult for our customers or end users to access our products or services, may make it more difficult for us to maintain or increase our revenues. As a result, our business, financial condition, and results of operations could be adversely impacted.

We rely on third party business partners in our business operations and we may experience difficulties or suffer delay under such arrangements, and as a result out operations may be materially and adversely affected.

We engage third party suppliers for certain materials and components, and outsource parts of our production process and logistics to relevant service providers. Stable supply of such materials, components and services, quality production, and smooth cooperation with such business partners are crucial to our business operations. We may experience operational difficulties with our suppliers, and business partners including but not limited to reduction in availability of production capacity, failure to comply with our product specifications and services standards, insufficient quality control and failure to meet the production schedules of our customers. Our suppliers may also experience disruption in their operations due to various reasons such as breakdown of machinery, shortage of materials, increase in operational costs, environmental non-compliance issues or other similar problems. Further, we may not be able to renew contract arrangements with our suppliers and may fail to find alternative suppliers in a timely manner. Any such failures or delays in performance by our suppliers could materially and adversely affect our business and financial results.

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

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

Our distributors may have unsatisfactory performance which is beyond our control and their improper conduct or any changes in their business relationships with us may adversely affect our business, financial conditions and results of operations.

For FY2020, FY2021, FY2022 and 6M2023, approximately 11.9%, 12.9%, 6.2% and 14.4% of our revenue were generated from our distributors, respectively. As of December 31, 2020, 2021, 2022, and June 30, 2023, we had 177, 163, 171 and 134 distributors (including both traditional distributors and online/offline hybrid distributors), respectively. See "Business — Sales — Our sales network — Distributors" for further details. We cannot assure you that our distributors will be successful in marketing, selling and supporting our products and services. We cannot assure you that there will be an appropriate inventory level of our products maintained by our distributors. Under-stocking can lead to missed sales opportunities, while over-stocking could result in inventory depreciation, decreased shelf space for stocks that are in higher demands, and return of unsold products to us from certain of our traditional distributors and online/offline hybrid distributors (mainly including e-commerce platforms, overseas distributors and overseas retailers which allow their customers to purchase our products) pursuant to the relevant distributorship agreements. Furthermore, we cannot assure you that our distributors will always be compliant with relevant laws, regulations or our distributorship agreements. If our distributors improperly use our brands, products or intellectual property rights, it could damage our reputation and brand image, undermine customers' confidence in us and reduce their long-term demands for our products. Our distributors may also subject us to lawsuits, potential liability and reputational harm if they misrepresent the functionality of our products and services to customers or violate laws or our corporate policies. In addition, it cannot be certain that we will retain our existing distributors or that we will be able to secure additional or substitutes for them. Our distributors may also devote more resources to the marketing, sales and support of competitive products and services. All these could adversely affect our business, financial conditions and results of operations.

The development of online sales and distribution network and marketing activities may not meet expectations, or we may fail to manage the coordination of our offline and online sales channels, which may adversely affect our operation results.

Our revenue generated by online sales channels had been growing during the Track Record Period due to the increasing sales online. For FY2020, FY2021, FY2022 and 6M2023, revenue generated from our online/offline hybrid distributors amounted to approximately RMB0.7 million, RMB7.0 million, RMB6.7 million and RMB11.7 million, respectively. However, as online and social media platforms continue to grow in popularity, any significant growth in our sales through online sales channels in the future may give rise to competition between offline and online sale channels. If we fail to balance the marketing efforts or optimize product mix and pricing strategies among our online and offline sales channels, or otherwise fail to effectively manage the integration of these channels, the competition among these channels may adversely affect our business, financial condition and results of operations.

We expect to further enhance our online strategies and increase sales from our online channels. However, we may not be able to maintain a high growth rate of our online sales, and if we fail to manage the continuous development of our online sales, our business, financial condition and results of operations may be adversely affected.

Failure to manage our distributorship sales channel may give rise to potential cannibalization in the future and adversely affect our business. For FY2020, FY2021, FY2022 and 6M2023, our sales to traditional distributors constituted 11.8%, 12.0%, 5.5% and 9.9% of our revenue, respectively, while sales through our online/offline hybrid distributors accounted 0.1%, 0.9%, 0.7% and 4.5% of our revenue, respectively. Our online/offline hybrid distributors complement each other to enables us to broaden our distribution network. See "Business — Sales — Our sales networks". However, any significant growth in our sales to certain distributors in the future, or changes to our distribution network, may give rise to competition among our distributors and increase the risk of cannibalization. If we fail to effectively manage our distribution network, the competition among the distributors may adversely affect our business, financial condition and results of operations.

Our online sales depend on the proper operation of third-party online platforms and any serious interruptions of these platforms could adversely affect our operations.

The development of sales through third-party online platforms is part of our business strategy. We have launched profile pages and a sales channel on our third-party online platforms. However, we do not have control over the operation of third-party online platforms and such platform may be vulnerable to damage or interruptions such as power failure, computer viruses, acts of hacking, vandalism and similar events. Any serious interruption or damage to the online platforms may have an adverse effect on our business, financial condition and results of operations. There is no assurance that our online sales strategy will be implemented in accordance with our plan or at all.

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

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

If we experience increased customer and end user demand for support and maintenance, we may face increased costs that may harm our results of operations. In particular, we may expand to countries and regions where the costs of providing maintenance and support services are higher as a result of more stringent consumer protection regulations and market practices. If we are unable to provide efficient customer and end user maintenance and support, our business may be harmed. Our ability to attract new customers is highly dependent on our business reputation and on positive recommendations from our existing customers and end users. Any failure to maintain high-quality maintenance and support services or a market perception that we do not maintain high-quality maintenance and support services for our customers and end users, would harm our business.

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

For FY2020, FY2021, FY2022 and 6M2023, the total value of our product return amounted to RMB26.4 million, RMB9.9 million, RMB4.4 million and RMB2.4 million, respectively, whereas our warranty expenses amounted to approximately RMB7.3 million, RMB6.3 million, RMB6.7 million and RMB6.0 million in the corresponding years/period, respectively, of which the total value of our product return due to (i) overstock of distributors amounted to RMB16.3 million, RMB8.1 million, RMB3.0 million and RMB1.2 million, (ii) termination of distributorship agreement amounted to RMB5.3 million, nil, nil and nil, (iii) return within a certain period of time stipulated in our agreements amounted to RMB3.8 million, RMB1.1 million, RMB1.3 million and RMB1.1 million, (iv) agreed amendments with customers in relation to purchase amount or specification of products amounted to RMB0.9 million, RMB0.6 million, RMB28,000 and RMB27,000 and (v) product quality amounted to RMB0.1 million, RMB0.1 million, RMB50,000 and RMB28,000, respectively. We recorded product return of RMB26.4 million in FY2020 mainly because of (i) certain traditional distributors and online/offline hybrid distributors (mainly including e-commerce platforms, an overseas household supplies and hardware distributor and established overseas retailers which operate multiple chain stores in the United States) were unable to sell the products, mainly consumer-level robots and other hardware devices such as Jimu series (non-education) robots and accessories and movie licensed robots, due to lowered market demand during the COVID-19 outbreak, and they returned overstocked products to us; and (ii) product return from a traditional distributor from overseas upon the termination of our exclusive distributorship agreement in 2018 due to its failure in achieving the minimum purchase amount pursuant to the aforementioned agreement. Our policy generally allows products with defects to be returned and exchanged by our customers, and we typically offer a limited warranty for our products and services. We also allow return and exchange of products sold to distributors that (i) are defective, (ii) do not conform to agreed specifications or to samples and (iii) are subject to the termination of cooperation with distributors. For certain traditional distributors and online/offline hybrid distributors (mainly including e-commerce platforms, overseas distributors and overseas retailers), we also allow the return and exchange of products that are (i) overstocked; and/or (ii) returned by retail customers to our distributors (mainly including e-commerce platforms, overseas distributors and overseas retailers) in accordance with the unconditional right to return within a certain period of time granted by our distributors. We may be required by law to adopt new or amend existing return, exchange and warranty policies from time to time. While these policies improve user experience of our products and services and help to acquire and retain customers and end-users, we will incur higher costs associated with return, exchange and warranties if we experience any deterioration in the quality of our products and services, and we may be subject to additional costs and expenses which we may not recoup. We cannot assure you that our return, exchange and warranty policies will not be misused by our customers and end-users, which may significantly increase our costs and may adversely impact our business and results of operations. If we revise these policies to reduce our costs and expenses, our customers and end-users may be dissatisfied, which may result in loss of existing customers and end-users or failure to acquire new customers and end-users at a desirable pace, which may materially and adversely affect our results of operations.

We may be subject to product liability claims if people or properties are harmed by the products and services we sell.

We cannot assure you that our quality control measures will be as effective as we expect. We may face the risk of significant monetary exposure to claims if we fail to implement and maintain our quality control steps and our products and services do not perform as expected or contain design and/or manufacturing defects or malfunctions.

If our smart service robotic products and services are defective, the sale of such products and services could expose us to product liability claims relating to personal injury or property damage and may require product and services recalls or other actions. Third parties who are subject to such injury or damage may bring claims or legal proceedings against us as the seller of the products and services. Certain product liability claims may be the result of defects from components and parts purchased from our suppliers. Attempting to enforce our rights against such suppliers and manufacturers may be expensive, time-consuming and ultimately futile. Such suppliers and manufacturers may not be able to indemnify us for the losses resulting from such defects and product liability claims in full or at all. Further, our insurance coverage might be insufficient to fully cover all damages sought and the claiming process might be prolonged. As a result, any material product liability claim or litigation could result in the expenditure of funds and managerial efforts in defending them and could have a negative impact on our reputation. Further, a product liability claim could generate substantial negative publicity about our products, services and brand, which would have a material adverse effect on our business prospects and financial condition.

If we fail to obtain or maintain the requisite licenses, permits, certificates and approvals required under the regulatory environment applicable to our business in any jurisdiction where we operate, or if it is time-consuming or costly to obtain or maintain such licenses, permits, certificates and approvals, our business, financial condition and results of operations may be materially and adversely affected.

The smart service robotic products and services industry and the industry sectors in which we provide our products and services, including education, logistics, general service and wellness and elderly care, are subject to the regulatory oversight of a number of governmental authorities, including but not limited to the Ministry of Industry and Information Technology of China.

There is no assurance that we can successfully update or renew the licenses, permits, certificates and approvals required for our business in a timely manner or at all, or that these licenses, permits, certificates and approvals are sufficient to conduct all of our present or future business. There are uncertainties regarding the interpretation and implementation of existing and future laws and regulations governing our business activities. If we fail to complete, obtain or maintain any of the required licenses, permits, certificates and approvals or make the necessary filings, we may be subject to various penalties, such as 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.

Our leased property interests in the PRC may be Title defective.

As of the Latest Practicable Date, the lessors of four of our lease properties in the PRC cannot provide us with the valid immovable property ownership certificates (不動產權證書). In relation to the Title Defects, as advised by our PRC Legal Adviser, as a result of the Title Defects, (i) it is the relevant lessors' responsibility to comply with the relevant requirements and to obtain the relevant ownership certificates; (ii) in case the relevant lessors do not own the leased properties, do not have the consent from the owner of the leased properties, or unable to prove that the construction of the leased properties has been approved by the relevant competent authorities, the relevant lease agreements may be deemed invalid and we may be required to vacate from such leased properties; and (iii) there is a risk that the usage of three of the leased properties may be inconsistent with the permitted usage, for which we may be subject to fines, and unable to continue using the leased properties if the lessors are ordered to return the properties by the relevant competent authorities.

We may experience disruptions and delays in local and global supply chain and logistics, which could have material and adverse impact on our business operation.

We conduct self-production processes for some of our smart service robots and core components of our products that involve manufacturing technology, mainly including servo actuators, Jimu series, uKit, humanoid Yanshee, Cruzr, AIMBOT, ADIBOT, AMRs and ATRIS. As of the Latest Practicable Date, we had eight production facilities in total, seven of which were in operation. We also leverage contract manufacturers to produce certain smart service robots and other hardware devices to enterprise-level customers and individual consumers, mainly including humanoid Alpha Mini and smart robotic appliances, to maximize the utilization of our resources. Further, we operate our warehouses for storing semi-finished and finished products and certain components and raw materials, and we engage third-party logistics service providers for the delivery of our products and services.

We rely on the timely supply of our raw materials in order to carry out our production plans as scheduled. Any delays or disruptions in raw material supplies from our suppliers, may have a material and adverse impact on our ability to meet the market demands and our marketing and sale of our products and services. In addition, any natural or man-made disasters or other unanticipated catastrophic events, including adverse weather, fires, technical or mechanical difficulties, storms, explosions, earthquakes, strikes, acts of terrorism, wars and outbreaks of pandemics could disrupt our transportation channels and impair the operations of our suppliers, and impede our ability to manufacture and deliver our products to customers in a timely manner. The delivery of (i) certain components to us and (ii) our products and services to certain customers have experienced delays of more than one month. The additional fees in relation to logistics services incurred as a result of the COVID-19 outbreak in FY2021 and FY2022 amounted to approximately RMB5.0 million. Any disruption or delay in our production and product and services delivery in the future could have an adverse impact on our ability to produce sufficient quantities of products and our ability to meet the needs of our customers. In such cases, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Any unexpected disruption at our production facilities could materially and adversely affect our business, financial condition and results of operations.

Our ability to meet the demand of our customers and grow our business relies on the efficient, proper and uninterrupted operation of our production plan and a constant and sufficient supply of utilities. In the event of earthquake, fire, drought, flood or other natural disaster, political instability, riot or civil unrest, extended outage of critical utilities or transportation systems, terrorist attack or other events that limit or disrupt our ability to operate our production facilities, we may experience substantial losses, including loss of revenue from disrupted production. We may also need to incur substantial additional expenses, exceeding our insurance coverage to repair or replace any damaged equipment or facility. In addition, our ability to manufacture and supply products and our ability to meet our delivery obligations to our customers would be significantly disrupted and our relationships with our customers could be damaged, which could have a material and adverse effect on our business, financial condition and results of operations.

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

Our technology infrastructure may encounter disruptions or other outages caused by problems or defects in our own technologies and systems, such as malfunctions in software or network overload. Our technology infrastructure may be vulnerable to damage or interruption caused by telecommunication failures, power loss, human error, cyber attacks 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 products and services. There is no assurance that we can respond to such interruptions in a timely manner, or at all. Such interruptions may affect the ability of customers to use cloud-based features of our products and services, which would damage our reputation, reduce our future revenues, harm our future profits, subject us to regulatory scrutiny and lead our customers and end-users to seek alternative products and services.

Furthermore, our technology infrastructure is also vulnerable to damages from fires, floods, earthquakes and other natural disasters, power loss and telecommunication 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 customer and user satisfaction, which in turn could adversely affect our reputation, business and financial condition.

Our production process relies on components and raw materials that may be subject to price fluctuations or shortages.

We develop, assemble and produce a substantial amount of smart service robotic products and certain components at our in-house facilities, and we purchase certain materials and components for our smart service robotic products. The key components for our smart service robotic products, among others, include processors, sensors, chips, batteries and cameras, which may be subject to price fluctuations or shortages. For example, chips are critical component of our production as it determines the efficiency of the device. Semi-conductors are also crucial elements in the production of many of our smart service robotic products. Any chips or semi-conductors shortage in the entire robotics industry and other sectors may lead to an increase in purchase price of chips and disruption in the supply of such key components for our production process.

Further, any export restrictions imposed by the U.S. government in relation to chips or semi-conductors may create further tension in chips supply in the robotics industry and other sectors in the PRC. We may not be able to obtain adequate replacement parts for our existing production process or to obtain additional chips on a timely basis, or at all, or we may only be able to purchase chips at premium prices. Such events could have a material adverse effect on our ability to pursue our strategy, which could have a material adverse effect on our business and the value of our securities.

Our operations may be subject to transfer pricing adjustments by competent authorities.

Our operations may be subject to transfer pricing adjustments by competent authorities. We have certain intra-group transactions among our subsidiaries in the PRC, United States, and Hong Kong that may be subject to audit or challenge by the relevant tax authorities. Such intra-group transactions can be categorized into: (i) intercompany buy-sell transactions: our cross-border intercompany buy-sell transactions include (a) U&ME Innovation Technology Company Limited purchased certain products from our domestic related parties and onwards sold to 3rd party distributors and customers, (b) UBTech Robotics Limited ("**UBTECH-HK**") purchased products from the our domestic related parties, (c) UBTech Robotics Corp purchased certain products from UBTECH-HK and our domestic related parties for the US local market distribution, and (iv) UBTECH-HK sold the remaining products to the 3rd party distributors and customers in the rest of the world. In FY2020, FY2021, FY2022 and 6M2023, the cross-border intercompany buy-sell transaction amounts amounted to RMB33.7 million, RMB66.2 million, RMB81.1 million and RMB70.9 million, respectively; and (ii) R&D collaboration: such transactions consist of contract R&D services rendered by UBTECH North America Research and Development Center Corp ("**UBTECH-R&D**") and Futronics (NA) Corporation ("**FUTRON-R&D**") to UBTech Robotics Corp Ltd. Functioned as our IP economic owner, UBTECH-SZ leads our R&D by setting overall R&D policy and protocols, conducting significant R&D activities by its in-house team of employees, and subcontracting part of the work to UBTECH-R&D and FUTRON-R&D. Both entities have been providing contract R&D services to UBTECH-SZ, with the focused areas on wellness and elderly care smart robotic products and services. As per the relevant intercompany agreements, upon the confirmation by UBTECH-SZ on the delivery of UBTECH-R&D and FUTRON-R&D, the intercompany R&D services fees would be arranged, to compensate all the relevant costs incurred by UBTECH-R&D and FUTRON-R&D with an additional 10% mark-up. In FY2020, FY2021, FY2022 and 6M2023, the intercompany R&D services transaction amounts amounted to RMB64.8 million, RMB68.0 million, RMB52.2 million and RMB17.6 million, respectively. See "Business — Transfer Pricing Arrangements" for details.

As such, we could face adverse tax consequences if the relevant tax authorities determine that some of our intra-group transactions do not represent arm's-length negotiations and consequently adjust any of those entities' income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, increase our tax liabilities. If we fail to rectify such incident within the limited timeframe required by the relevant tax authorities, the relevant tax authorities may impose late payment interest or surcharge and other penalties on us for any unpaid taxes. In addition, a transfer pricing arrangement may give rise to tax recoverable in certain jurisdictions as a result of tax adjustments. There is no assurance that we could successfully recover the tax recoverable from the relevant tax authorities. Our business, financial condition and results of operation may therefore be materially and adversely affected.

Further, we expect that the transfer pricing arrangements will continue in the foreseeable future and we will determine transfer pricing arrangements that we believe to be the same as that transacted with unrelated third parties on an arms' length basis. However, there is no assurance that tax authorities would share the same view, or such laws and regulations will not be modified. In the event that an authority of any relevant jurisdiction determines that such intra-group transactions were not on an arm's length basis that affect taxable income, such authority could require our relevant subsidiaries to re-determine the transfer prices and thereby adjust revenue, deduct costs and expenses or adjust taxable income of the relevant subsidiary in order to accurately reflect the taxable income. Any such adjustment could result in higher overall tax liability for us, which may adversely affect our business, financial condition and results of operations.

We are exposed to risks associated with conducting business internationally and will continue to be subject to such risks when we expand our business overseas.

During the Track Record Period, we sold our products and services to overseas countries including but not limited to the U.S., Japan, Belgium and Thailand. During the Track Record Period, our overseas sales accounted for amounted to approximately RMB57.4 million, RMB63.4 million, RMB131.0 million and RMB69.8 million, representing approximately 7.8%, 7.8%, 13.0% and 26.7% of our total revenue. We may be subject to the following risks:

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

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

Further, we expect that the transfer pricing arrangements will continue in the foreseeable future and we will determine transfer pricing arrangement that we believe to be the same as that transacted with unrelated third parties on an arms' length basis. However, there is no assurance that tax authorities would share the same view, or such laws and regulations will not be modified. In the event that an authority of any relevant jurisdiction determines that such intra-group transactions were not on an arm's length basis that affect taxable income, such authority could require our relevant subsidiaries to re-determine the transfer prices and thereby adjust revenue, deduct costs and expenses or adjust taxable income of the relevant subsidiary in order to accurately reflect the taxable income. Any such adjustment could result in higher overall tax liability for us, which may adversely affect our business, financial condition and results of operations.

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

We currently invest a portion of our capital in investments. During the Track Record Period, we had invested in wealth management products and unlisted equity measured at fair value through profit or loss and at fair value through other comprehensive income. The fair value estimates of financial assets at fair value through profit or loss (wealth management products) are included in level 2, where the fair values have been determined based on observable inputs other than quoted prices. The fair value estimations of financial assets at fair value through other comprehensive income (unlisted entities) are included in level 3, where the fair values have been determined based on unobservable inputs. We classified our wealth management products and unlisted equity as financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income of which no quoted prices in an active market exist. As of June 30, 2023, our (i) financial assets at fair value through profit or loss and (ii) financial assets at fair value through other comprehensive income amounted to nil and RMB5.4 million, respectively. The fair values of the financial assets at fair value through other comprehensive income within level 3 of fair value measurement is established by using different valuation techniques which include some inputs. For the loan and interest receivable, our management used discounted cash flow as the valuation technique and the significant unobservable input was discount rate. The fair value change of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income may significantly affect our financial position and results of operations. Accordingly, such determination requires us to make significant estimates, which may be subject to material changes, and therefore inherently involves a certain degree of uncertainty. Factors beyond our control can significantly influence and cause adverse changes to the estimates we use and thereby affect the fair value of such financial assets. These factors include, but are not limited to, general economic condition, changes in market interest rates and the stability of capital markets. Any of these factors, as well as others, could cause our estimates to vary from actual results, which could materially and adversely affect our results of operation and financial condition. In addition, the process for determining whether an impairment of financial asset is other-than-temporary usually requires complex and subjective judgments, which could subsequently prove to have been wrong.

Furthermore, our investments may earn yields substantially lower than anticipated, and the fair values of our investments may fluctuate significantly, which contribute to the uncertainties in valuation. Any failure to realize the benefits we expected from these investments may materially and adversely affect our business and financial results. During the Track Record Period, we had investment holding in one company as of December 31, 2020 and two companies as of December 31, 2021 and 2022 and as of June 30, 2023 and, respectively, in order to open up new markets for our business. During FY2021, there was a decrease in fair value of RMB7.0 million resulting from decrease in business enterprise value of such investments and the disposal of the investment in a company with a cost of RMB4.0 million, whereas there was an increase in fair value of RMB1.6 million from the increase in business enterprise value of such investments during FY2022. Our financial assets at fair value through other comprehensive income then remained relatively stable at RMB5.4 million as of June 30, 2023. Any change in securities prices and market conditions could lead to volatility in the fair values of our financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, which could further impact our financial condition and results of operations and may also impact our ability to dispose of these financial instruments at favorable prices.

If we are unable to manage our inventory risks efficiently or the proportions and amount of our provision for inventories further increase, our financial and results of operations may be adversely affected.

We had inventories of RMB412.8 million, RMB426.1 million, RMB332.7 million, and RMB416.5 million as of December 31, 2020, 2021, 2022, and June 30, 2023, respectively. Our Group had net write-down of inventories recorded in profit and loss account of RMB12.6 million, RMB1.2 million, RMB70.6 million, and RMB2.0 million in FY2020, FY2021, FY2022 and 6M2023, respectively. According to Frost & Sullivan, the smart service robotic products and services industry in China and the rest of the world is characterized by evolving technologies, products and services and infrastructures, increasing competition, changing government regulations and industry standards, and changing market demands. As such, our smart service robotic products and services may have a short product life cycle and are subject to fast-changing product trends and constantly evolving technologies.

We cannot assure you that our inventories will not be damaged or impaired, as our storage may encounter unforeseeable events. As such, failure to manage our inventories effectively may adversely affect our financial condition and results of operations. In addition, our inventories are subject to impairment if their net realizable value falls before we sell them. With the development of the smart service robotic products and services industry and according to our business scale expansion, aging of inventory balance, adjustment of subsidy policy and upgrading and iteration of our products, the amount and proportion of our provision of the inventories may further increase, which may have an adverse impact on our financial and results of operations.

If we are unable to perform our contracts, our results of operations and financial condition may be adversely affected.

Contract liabilities represented receipt in advance for our products. Our contract liabilities amounted to RMB91.1 million, RMB144.2 million, RMB84.5 million and RMB127.1 million as of December 31, 2020, 2021, 2022, and June 30, 2023, respectively. If we fail to honor our obligations under our contracts with our customers, we may not be able to convert such contract liabilities into revenue, and our customers may also require us to refund the receipt in advance for our products that they have made, which may in turn adversely affect our liquidity position and financial condition. In addition, if we fail to honor our obligations under our contracts with our customers, it may also adversely affect our relationship with such customers, which may in turn affect our results of operations in the future.

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

We have incurred net current liabilities in the past. We had net current liabilities of RMB83.3 million as of December 31, 2021. Our Group's net current assets decreased from RMB281.9 million as of December 31, 2020 to net current liabilities of RMB83.3 million as of December 31, 2021. The decrease was primarily due to (i) decrease in cash and cash equivalents of RMB348.7 million mainly to support daily operation and purchase of property, plant and equipment; (ii) increase in trade payables of RMB170.1 million due to increase in procurement of sub-contracting services; (iii) increase in other payables and accruals of RMB97.8 million; and (iv) increase in current portion of borrowings of RMB75.7 million. The decrease was partially offset by the (i) increase in trade receivables of RMB231.5 million due to the increase in revenue from logistics and education smart robotic products and services in the fourth quarter of the year; and (ii) increase in prepayments, deposits and other receivables of RMB100.9 million.

Net current liabilities expose us to liquidity risk. Payment of trade and other payables, our capital expenditure plans and the repayment of our outstanding debt obligations as and when they become due will primarily depend on our ability to maintain adequate cash generated from operating activities and adequate external financing. In addition, if we encounter any liquidity issues in the future, we may curtail or defer our business expansion plans based on the availability of sufficient funds. If we have net current liabilities in the future, our working capital for operations or business expansion plans could be limited and our business, financial position and results of operations could be materially and adversely affected.

We may be exposed to higher accounts receivables risks and credit risks of our customers as we continue to expand our business.

Our sales to our customers are mainly made on credit with a general credit terms within 12 months. As of December 31, 2020, 2021, 2022, and June 30, 2023, we recorded gross trade receivables of RMB180.2 million, RMB418.7 million, RMB751.7 million, and RMB759.9 million, respectively, and such figures may further increase in the future, whilst we have allowance for impairment for trade receivables of RMB43.5 million, RMB50.5 million, RMB89.6 million and RMB97.6 million as of the same date, respectively. If our customers delay in or default on their payments, we may have to make additional provision for impairment, write off the relevant receivables and/or incur substantial legal costs to recover the outstanding balance, which may in turn materially and adversely affect our financial condition, results of operations and business prospects.

We are dependent on bank loans to our Group that involve a guarantee provided by one of our Controlling Shareholders.

During the Track Record Period, we relied on bank loans to our Group that involve a guarantee provided by one of our Controlling Shareholders to fund our business operations. As of December 31, 2020, 2021, 2022, and June 30, 2023, our Group's bank loans of nil, RMB306.9 million, RMB298.2 million and RMB601.9 million, respectively, were guaranteed by Mr. Zhou Jian. See note 41 of "Appendix I – Accountant's Report" and "Relationship with Our Controlling Shareholders – Independence from Our Controlling Shareholders – (iii) Financial independence" for details. There is no assurance that we will be able to satisfy all covenants under relevant bank loan agreements and/or obtain the financing on terms acceptable and/or on a timely basis in the future, or at all. Further, there is no assurance that we will have sufficient cash from other sources to fund our operations. If we are unable to obtain or refinance our debt, our business, prospects, cash flows, financial condition and results of operations could be adversely affected.

Our business strategies require a significant amount of capital. If we fail to obtain sufficient financing to support our business development, our business operation, financial condition, and prospects may be materially and adversely affected.

Our business and future strategy are capital intensive and require substantial investments in, among other things, R&D, increasing the production capability and products promotion and marketing. As we increase our production capacity and operations, we may also require significant capital to maintain our property, plant and equipment and such costs may be greater than anticipated. We expect that our level of capital expenditures will be significantly affected by user demand for our products. Our future capital requirements may be uncertain and actual capital requirements may be different from those we currently anticipate. We may seek equity or debt financing to finance a portion of our capital expenditures. If we fail to obtain sufficient capital in a timely manner or on acceptable terms, or at all, we may be required to significantly reduce our spending, delay or cancel our planned activities, or substantially change our corporate strategy, which may materially and adversely affect our business, financial condition, and prospects.

In addition, our future capital needs and other business reasons could require us to issue additional equity or debt securities or obtain a credit facility. The issuance of additional equity or equity-linked securities could dilute our shareholders and decrease the dividend per share. The incurrence of indebtedness would result in an increase in debt service obligations and could result in operating and financing covenants that would restrict our operations or our ability to pay dividends to our shareholders.

If we fail to comply with various environmental and fire safety related laws and regulations, we may be subject to fines and penalties.

We are subject to national and local environmental protection and fire safety related laws and regulations applicable to us in China including but not limited to the Administration Rules on Environmental Protection of Construction Projects (《建設項目環境保護管理條例》), the Environmental Impact Appraisal Law of PRC (《中華人民共和國環境影響評價法》), Pollutant Discharge Permit Administrative Regulations (《排污許可管理條例》) and Fire Prevention Law of the PRC (《中華人民共和國消防法》).

If we fail to comply with the relevant environmental and fire safety related laws and regulations, we may be liable for correction, fines or penalties or also be ordered to suspend or terminate the construction if such non-compliance causes material environment pollution or ecological damage. If any of such penalties are imposed on us, our operations could be materially and adversely affected and we will incur significant costs which will negatively impact our financial performance. We cannot assure you that we will be able to obtain all the regulatory approvals for our production lines and factories construction projects in a timely manner, or at all. Delays or failures in obtaining all the requisite regulatory approvals of such facilities may affect our abilities to develop, manufacture and commercialize our products as we plan.

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

We seek to improve and update our risk management and internal control systems on a regular basis. Please see "Business — Risk Management and Internal Control" for details. However, there is no assurance that they will be effective in safeguarding our risk management and internal control functions and fulfilling their purposes by ensuring, among other things, accurate reporting of our financial results and the prevention of fraud. Since our risk management and internal control systems depend on effective 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 internal control procedures, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Further, 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. In addition, although we maintain strict standards in choosing our business partners, there is no assurance that our business partners 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.

We may be involved in legal proceedings and commercial disputes, which could materially affect on our business, financial condition and results of operations.

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

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.

New legal or administrative proceedings and claims may arise in the future. If one or more legal or administrative matters are resolved against us or an indemnified third party for amounts in excess of our management's expectations or certain injunctions are granted to prevent us from using certain technologies in our products and services, our business and financial conditions could be materially and adversely affected. Further, such an outcome could result in significant compensatory 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.

In particular, during the Track Record Period, our Group has entered into contracts with certain customers whereby we are required to deliver our products and services to their own customers who are the end-users. Regarding such arrangements, we could not guarantee that the end-users are fully aware of and have properly authorized our customers to enter into such arrangements with our Group. In particular, disputes and litigations may arise in relation to the enforceability and performance of the relevant contracts which may result in disruptions, suspensions or termination of the contractual relationships and expose our Group to civil liabilities such as compensation and penalties. In addition, we may also incur significant legal costs in handling such disputes and litigations.As such, the occurrence of such disputes and litigations could adversely affect our business, results of operations and financial condition.

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

Pursuant to the PRC Labor Contract Law (中華人民共和國勞動合同法), or the Labor Contract Law, which took effect in January 2008 and was revised in December 2012, and its implementation rules which took effect in September 2008, employers are subject to strict requirements in terms of signing labor contracts, minimum wages, paying remuneration, determining the term of employees' probation and unilaterally terminating labor contracts. Compliance with the Labor Contract Law and its implementation rules may increase our operating expenses, in particular our personnel expenses. In the event that we decide to dismiss some of our employees or otherwise change our employment or labor practices, the PRC Labor Contract Law and its implementation rules may also limit our ability to effect those changes in a cost-effective manner, which could adversely affect our business and results of operations.

As the interpretation and implementation of labor-related laws and regulations are still evolving, we cannot assure you that our employment practice policy and insurance policy will at all times be deemed to be in full compliance with labor-related laws and regulations in China, which may subject us to labor disputes, fines or government investigations. If we are deemed to have violated relevant labor-related 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.

Besides, China's economy has experienced increases in labor costs in recent years. As China's economy continues to grow, the average wages in China are also expected to grow. We expect that our staff costs, including wages and employee benefits, will continue to increase. Unless we are able to pass on the increased staff costs to our customers by raising the price of our products and services, our profit margin may shrink and our results of operations may be materially and adversely affected.

Our leased property interests in the PRC are subject to Usage Defects and we may face penalties from the relevant competent authorities.

During the Track Record Period, six of our leased properties were subject to inconsistency with the permitted usage (the "**Usage Defects**").

As advised by our PRC Legal Adviser, in accordance the PRC laws and regulations, the Usage Defects may affect the validity or enforceability of the relevant lease agreements, and we may be subject to administrative penalties by the relevant competent authorities, including fines and being required to vacate the leased properties. Even though (i) we no longer leased the Chongqing Leased Property and Guizhou Leased Property, and (ii) Kunming Leased Property is now used as office (including research and development) premise which is consistent with the permitted usage, considering the rectifications of the relevant Usage Defects were carried out within the two-year period prior to the Latest Practicable Date, we are still subject to the risk of administrative penalties in respect of such historical defects. Under the PRC laws and regulations, the aggregate maximum fine which our Group may be subject to in respect of all the above mentioned Usage Defects is approximately RMB7.0 million. See "Business — Non-compliance matters — 1. Inconsistency with permitted usage of certain leased properties" for details. We cannot assure you that we would not be subject to any penalties and/or requests for the non-compliances in the future, any of which may incur additional expenses and adversely affect our business and financial condition.

We may be subject to fines or penalties as a result of our failure to commence constructions in respect to our owned properties in the PRC.

During the Track Record Period and up to the Latest Practicable Date, in respect of four of our owned properties in the PRC, we had failed to commence constructions on such owned properties before the date prescribed under the relevant land use right grant contracts. As advised by our PRC Legal Adviser, we may be subject to (i) warning and fines in respect of three of the owned properties located in Kunming, Shenzhen and Hangzhou respectively ("**Kunming Owned Property 1**", "**Shenzhen Owned Property**", and "**Hangzhou Owned Property**") as we have commenced constructions within one year after the prescribed dates; and (ii) warning, land idle fee of up to RMB6.1 million and fines in respect of one of the owned properties (the "**Kunming Owned Property 2**") as we have commenced constructions more than two years after the prescribed date. See "Business — Non-compliance matters — 2. Delays in commencement of constructions on certain owned properties" for further details.

Furthermore, pursuant to the abovementioned owned properties, we have entered into land grant contracts (國有土地使用權出讓合同) with the government authorities, if we fail to develop a property project according to the terms of the land grant contract (國有土地使用權出讓合同), including those relating to the time for commencement and completion of the property development, government authorities may issue a warning, have a claim of liquidated damages from us, impose a penalty and/or order us to forfeit the land.

We cannot assure you that we will be able to fully comply with the obligations under applicable PRC laws and regulations in the future including delays in the commencement of construction or that our developments will not be subject to idle land penalties or taken back by the PRC Government as a result of such delays. The imposition of land penalties could have a material and adverse effect on our business, results of operations and financial condition. If any of our land is reclaimed by the PRC Government, we would also lose our prior investments in the development, including land premiums paid and costs incurred prior to the reclamation in connection with the land.

We may be subject to fines and penalties as a result of our non-compliance with certain PRC laws and regulations regarding the social insurance and housing provident fund during the Track Record Period.

Pursuant to the relevant PRC laws and regulations, employers in the PRC are required to make social insurance and housing provident fund contributions for their employees, and entities failing to make such contributions may be ordered to settle the outstanding contributions within a prescribed time limit and subject to late payments or fines. During the Track Record Period, we have not fully made social insurance and housing provident fund contribution for our PRC employees as required under the relevant PRC laws and regulations. During the Track Record Period and up to the Latest Practicable Date, we had not received any orders or demands from the relevant government authorities requesting us to pay the shortfall in social insurance or housing provident fund contributions or any penalties and there had been no complaints from our Group's employees regarding the non-compliance of social insurance and housing provident fund contributions. We estimate that in the event that we are ordered to make up for our outstanding contributions during the Track Record Period, the maximum late payment fee would be approximately RMB9.9 million. We have made full provisions for the outstanding contributions in our consolidated financial statements in the amount of RMB3.0 million, RMB3.9 million, RMB4.1 million and RMB0.8 million for FY2020, FY2021, FY2022 and 6M2023, respectively. See "Business — Non-compliance matters — 3. Failure to make full contributions to social insurance and housing provident funds and the use of third parties to pay the contributions" for further details.

According to the relevant social insurance laws and regulations of the PRC, we may be required by the relevant government authority to make up the outstanding social insurance contribution with an additional late payment fee at a daily rate of 0.05% of the outstanding contribution from the due date within a given period, and if we fail to do so, we may be subject to a fine ranging from one to three times of the total amount of the outstanding contribution. According to the relevant housing provident funds laws and regulations of the PRC, we may be ordered by the relevant government authority to make up the outstanding contributions within the prescribed time limit, and failing which we may be subject to a fine from RMB10,000 to RMB50,000.

Furthermore, we have engaged certain third party agencies to make social insurance and housing provident funds contributions on behalf of us during the Track Record Period, which amounted to RMB1.4 million, RMB1.8 million, RMB1.6 million and RMB0.9 million in FY2020, FY2021, FY2022 and 6M2023, respectively, representing approximately 1.83%, 1.67%, 1.44% and 1.73% of our total social insurance and housing provident funds contributions during the corresponding years/period. As of Latest Practicable Date, the number of employees for which we engaged third-party agencies for paying social insurance or housing provident funds was 89, representing 5.03% of the total number of our employees as of June 30, 2023. We estimate that in the event that we are ordered to make up for the social insurance and housing provident funds contributions made by third party agencies on behalf of us during the Track Record Period, the maximum late payment fee would be approximately RMB2.2 million. See "Business – Non-compliance matters – 3. Failure to make full contributions to social insurance and housing provident funds and the use of third parties to pay the contributions" for further details.

The relevant competent government authorities may determine that our use of such agency arrangements does not satisfy the requirements under the relevant PRC laws and regulations, and thus we may be subject to additional contributions, late payment fees and/or penalties imposed by the relevant PRC authorities for failing to discharge our obligations in relation to payment of social insurance and housing provident funds as an employer or be ordered to rectify.

There is no assurance that we will not be subject to late payments, fines or penalties imposed by the relevant PRC government authorities as a result of such non-compliance incidents, requested by the relevant PRC government authorities to pay the unpaid social insurance payments or housing provident fund contributions, or any order to rectify such non-compliance incidents. There is also no assurance that there will be no employee complaint against us in relation to our failure to make full social insurance and housing provident fund contributions. In addition, we may incur additional costs to comply with such laws and regulations by the relevant PRC government authorities. Any such development may harm our corporate image and may have an adverse effect on our financial condition and results of operations.

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

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

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

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. It may also be difficult for us to find insurance coverage for some of our business activities such as credit insurance for our overseas business operations. 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 risks materialize, we may also suffer substantial losses.

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 mainland China or any other market in which we do business could severely disrupt our business operations by damaging our technology infrastructure or information technology system or impacting the productivity of our workforce, which may adversely affect our financial condition and results of operations.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

In the event of a global economic slowdown which includes the PRC, the demand for our products and services may be reduced and this may have a material adverse effect on our business, financial condition, results of operations and prospects.

We conduct our business and generate substantially all of our revenue in the PRC. As a result, economic developments in the PRC have a significant effect on our business, financial condition and results of operations, as well as our prospects. The global economy may continue to deteriorate in the future and continue to have an adverse impact on the PRC's economy. Any significant slowdown in the PRC's economy could have a material adverse effect on our business and operations. In particular:

- during a period of economic slowdown, there is a greater likelihood that more of our customers or contractual parties could become delinquent in respect of their obligations to us;
- we may not be able to raise additional capital on favorable terms, or at all; or
- trade and capital flows may further contract as a result of protectionist measures introduced in certain markets, which could cause a further slowdown in economies and materially and adversely affect our business and prospects.

In addition, factors such as consumer, corporate and government spending, business investment, volatility of the capital markets and inflation all affect the business and economic environment, the growth of the PRC's smart service robotic products and services industry and ultimately, the profitability of our business. Our labor and other costs may also increase due to pressure from inflation.

If our preferential tax and other treatments 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.

Our Company and our subsidiary Shanghai UBJ had applied to the relevant tax bureau and were granted the qualification as "High and New Technology Enterprise" ("HNTE") in June 2015 and November 2021 respectively, and our Company has renewed the qualification as HNTE in October 2018 and December 2021. As a result, our Company and our subsidiary Shanghai UBJ are subject to a preferential CIT rate of 15% for the Track Record Period. A subsidiary of our Company, UBTECH Software Technology (Shenzhen) Co., Ltd. ("UBTECH Software"), had applied to the relevant tax bureau and were granted the qualification as "National Key Software Enterprise" in March 2019. As a result, UBTECH Software was subject to a two years exemption and three years half exemption of CIT from the year ended December 31, 2018. Furthermore, UBTECH Software had also applied to the relevant tax bureau and were granted the qualification as HNTE in December 2020. As such, during the Track Record Period, UBTECH Software was subject to a preferential CIT rate of 12.5% until January 1, 2023, whereas UBTECH Software was subject to a preferential CIT rate of 15% for the remainder of the Track Record Period. Our other major subsidiaries were subject to CIT at a rate of 25%, which is the normal CIT rate in the PRC.

If our preferential tax treatments 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. Please see "Financial Information — Description of Selected Items in Consolidated Income Statements — Income tax expense" for further details.

The PRC government policy 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 of additional verification procedures by certain authorities. The Special Management Measures (Negative List) for the Access of Foreign Investment (Edition 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 Group's 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 could be updated in the future, there can be no assurance that the PRC government will not change its policies in a manner that would render part of our business in China falling within the Negative List. If we cannot obtain approval from relevant approval authorities to engage in a business in China which becomes prohibited or restricted for foreign investors, we may be forced to sell or restructure our business which has become restricted or prohibited for foreign investment. If we are forced 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.

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. We cannot assure you that we will continue to comply with relevant future examinations by PRC tax laws and regulations in the future. If we fail to comply with relevant tax laws and regulations in the future, we may be subject to investigations by the PRC tax authorities in respect of the non-compliance, which may 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, the PRC government from time to time adjusts or changes its tax laws and regulations. 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稅法》), 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. We cannot guarantee further adjustments or changes to PRC tax laws and regulations, would also have any effect on our business, financial condition and results of operations.

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

Following the practice of all major economies, China also has tax treaties or similar arrangements with jurisdictions around the world. Pursuant to the Enterprise Income Tax Law and its implementing rules, the 10% withholding tax in China generally applies to dividends paid to investors of enterprises resident outside China, which have no establishment or business place in China, or have establishment or place of business but the relevant income has no actual connection with the establishment or place of business. Unless otherwise provided in agreements or similar arrangements, any gains realized from the transfer of shares by these investors, if deemed to be originated from China, are subject to a Chinese income tax rate of 10% (or lower). According to the Individual Income Tax Law and its implementation rules, dividends originated from China paid to foreign individual investors who are not Chinese residents are generally subject to Chinese withholding tax at a rate of 20% and any proceeds incurred from share transfers by such shareholders are generally subject to 20% Chinese income tax, unless there exists any relief under applicable tax agreements and PRC law. Although our business operations are in China, it is unclear whether dividends paid by us on H shares or gains realized from the transfer of H shares will be considered as income originated from China and will be subject to Chinese income tax. If PRC income tax is imposed on gains realized on the transfer of our H Shares or dividends paid to our non-resident investors, the value of your investment in our Shares may be adversely affected. In addition, our Shareholders may not be eligible for the benefits of tax agreements or arrangements in their jurisdictions of residence if they have tax agreements or arrangements with the PRC.

RISKS RELATING TO INTERNATIONAL SANCTIONS

We could be adversely affected as a result of any transactions we have with persons in countries that are, or become subject to, sanctions administered by the Relevant Sanctions Authorities and other relevant authorities.

The United States and other jurisdictions or organisations, including the E.U., the U.K., the U.N. and Australia, have, through executive orders, passing of legislation or other governmental means, implemented measures that impose economic sanctions against certain countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries.

During the Track Record Period, we sold consumer-level robots and other hardware devices to customers located in Belarus, Egypt, Hong Kong, Iraq, Russia, Serbia, Turkey and Ukraine (excluding Crimea, Luhansk, Donetsk, Zaporizhzhia and Kherson regions) and purchased certain promotional service from a service provider in Turkey. All of these countries are subject to certain forms of International Sanctions programmes administered by the Relevant Sanctions Authorities. In particular, as advised by our International Sanctions Legal Advisers, Russia has been subject to sweeping sanctions by the Western countries since its military aggressions in Ukraine in February 2022.

To the best knowledge of our Directors, for FY2020, FY2021, FY2022 and 6M2023, our revenue derived from the sales to the Relevant Countries amounted to approximately RMB2.99 million, RMB5.13 million, RMB13.20 million and RMB3.00 million, respectively, representing approximately 0.40%, 0.63%, 1.31% and 1.15% of our total revenue for the same years/period, respectively. Our sales to Russia are mostly AiRROBO vacuum cleaner and accessories, and Jimu series (non-education) used in family education, STEAM training and competition settings. Our revenue generated from the sales to customers located in Russia amounted to RMB0.81 million, RMB1.88 million, RMB3.06 million and RMB2.42 million, representing approximately 0.11%, 0.23%, 0.30% and 0.93% of our total revenue for FY2020, FY2021, FY2022 and 6M2023, respectively. In addition, we paid a very small amount of fee (i.e., approximately RMB20,000) for certain promotional services rendered to us by a Turkey service provider in 2021, representing no more than 0.01% of the selling and marketing expenses of the Group in 2021. Other than such fee paid in 2021, there was no other transaction with this Turkey service provider during the Track Record Period, and we have ceased business dealings with this service provider since the end of 2021. Please see "Business — Business Activities in Respect of Countries with International Sanctions Exposure" for further details.

Sanctions laws and regulations are constantly evolving, and new persons and entities are regularly added to the list of Sanctioned Targets. Further, new requirements or restrictions could increase the scrutiny on our business or result in one or more of our business activities being deemed subject to sanctions restrictions. If we fail to keep abreast of the latest developments in International Sanctions, we would not be able to minimize sanctions risk exposures. If any of our future activities with certain jurisdictions are determined by the Relevant Sanctions Authorities or other relevant authorities administering sanctions measures in any other jurisdictions to constitute a violation of the sanctions imposed by these authorities or provides a basis for a sanctions designation of us, our business and reputation could be adversely affected. Also, any association with customers, suppliers and service providers in countries subject to any form of sanctions programmes could subject us to actual or perceived reputational harm. Any such reputational harm could result in the loss of investors, customers, suppliers or service providers, which could in turn harm our business, financial condition or prospects.

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

In recent years, the U.S. government imposed targeted export control and trade restrictions on the PRC and a number of Chinese companies and institutions, including by adding them onto the BIS Lists which limit their access to certain U.S.-origin goods, software and technologies, as well as items that contain a significant portion of or are a direct product of certain U.S.-origin goods, software and technologies. Any future changes of regulations and policies regarding export controls could have an unpredictable impact on our business operations.

We generally procure the goods, parts and components used in our manufacturing from domestic suppliers located in China. Although these purchases include certain U.S.-origin goods, parts and components, the value of such U.S.-origin content does not exceed 10% of the value of each product. In addition, as part of our export control compliance measures, we require the domestic suppliers to certify their compliance with U.S. export control regulations with respect to the U.S.-origin goods, parts or components supplied to us. Furthermore, during the Track Record Period, we did not import products, parts and components directly from the U.S. and E.U. into the PRC. Also, we did not sell our products to Chinese companies while they are on the BIS Lists during the Track Record Period.

However, U.S. export controls and trade laws, policies and regulations are complex and subject to frequent changes, which could have an impact on our business operations. In addition, the interpretation and enforcement of the relevant regulations involve substantial uncertainties, which may be driven by geo-political, geo-economic and/or other factors that are not within our control or that might be heightened by international and national security concerns. Any potential restrictions, associated inquiries or investigations, or other government actions may be difficult or costly to comply with and may, among other things, delay or impede the development of our technology, products and services, and hinder the stability of our supply chain. These changes could also result in negative publicity, require significant time and attention of the management and may subject us to fines, penalties or orders. If any of these occur, we may be required to cease or modify our existing business practices. Any of these events may have a material and adverse effect on our business, financial conditions and results of operations.

RISKS RELATING TO THE [REDACTED] AND OUR SHARES

Any possible conversion of our Domestic Shares into [REDACTED] in the future could increase the supply of our [REDACTED] in the market and negatively impact the market price of our [REDACTED].

Subject to the approval of the CSRC, all of our Domestic Shares may be converted into [**REDACTED**] in the future, and such converted Shares may be [**REDACTED**] or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted Shares any requisite internal approval by our Shareholders and approval from relevant PRC regulatory authorities shall have been obtained. However, the PRC Company Law provides that in relation to the [**REDACTED**] of a company, the shares of that company which are issued prior to the [**REDACTED**] shall not be transferred within one year from the date of the [**REDACTED**]. Therefore, upon obtaining the requisite approval, our Domestic Shares may be traded, after the conversion, in the form of H Shares on the Stock Exchange after one year of the [**REDACTED**], which could further increase the supply of our H Shares in the market and may negatively impact the market price of our H Shares.

There has been no prior public market for our [REDACTED], and an active trading market for our H Shares may not develop.

Prior to the [**REDACTED**], there was no public market for our [**REDACTED**]. The [**REDACTED**] for our [**REDACTED**] will be the result of negotiations between us and the [**REDACTED**] (for themselves and on behalf of the [**REDACTED**]), and may differ significantly from the market price of the H Shares following the [**REDACTED**]. We have applied to the Stock Exchange for the granting of the [**REDACTED**] of, and permission to deal in, our [**REDACTED**] to be issued pursuant to the [**REDACTED**] (including any additional H Shares which may be issued pursuant to the exercise of the [**REDACTED**] and the H Shares to be converted from Domestic Shares). However, we cannot assure you that a public market for our H Shares with adequate liquidity will develop and be sustained following the completion of [**REDACTED**], or that the market price of our [**REDACTED**] will not decline following the [**REDACTED**]. If an active public market for our [**REDACTED**] does not develop following the completion of the [**REDACTED**], the market price and liquidity of our [**REDACTED**] could be materially and adversely affected.

The price and trading volume of our [REDACTED] may be volatile and investors may suffer substantial losses.

The market price, liquidity and trading volume of our [**REDACTED**] may be volatile subject to various factors beyond our control, including but not limited to political uncertainties in Hong Kong, the general market conditions of the securities in Hong Kong and elsewhere in the world. Business and performance and the market price of the shares of other companies engaging in similar business as we do may affect the price and trading volume of our [**REDACTED**]. There can be no assurance that these developments will not occur in the future. In addition to market and industry factors, the price and trading volume of our [**REDACTED**] may be highly volatile for specific business reasons, such as fluctuations in our revenue, earnings, cash flows, new investments, expenditures, regulatory developments, relationships with our suppliers and customers, movements or activities of key personnel, or actions taken by our competitors. Moreover, shares of other companies [**REDACTED**] on the Stock Exchange with significant operations and assets in China have experienced price volatility in the past, and it is possible that our [**REDACTED**] may be subject to changes in price not directly related to our performance but related to the overall political and economic conditions in Hong Kong, the PRC or elsewhere in the world.

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

The market price of our [**REDACTED**] could decline as a result of future sales of a substantial number of our H Shares or other securities relating to our [**REDACTED**] in the public market, or the issuance of new H Shares or other securities relating to our [**REDACTED**], or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of our [**REDACTED**], including any future [**REDACTED**], could materially and adversely affect our ability to raise capital and on terms favorable to us. In addition, our Shareholders may experience dilution in their holdings if we issue more securities in the future.

Any possible conversion of our Domestic Shares into [REDACTED] in the future could increase the supply of our [REDACTED] in the market and negatively impact the market price of our [REDACTED].

Subject to the approval by the CSRC, any of our Domestic Shares may be converted into [**REDACTED**], and such converted Shares may be [**REDACTED**] or traded on an overseas stock exchange. Any [**REDACTED**] or trading of the converted Shares on an overseas stock exchange shall also comply with the regulatory procedures, rules and requirements of such stock exchange. No class shareholder voting is required for the [**REDACTED**] and trading of the converted Shares on an overseas stock exchange. However, the PRC Company Law provides that in relation to the [**REDACTED**] of a company, the shares of that company which are issued prior to the [**REDACTED**] shall not be transferred within one year from the date of the [**REDACTED**]. Therefore, upon obtaining the requisite approval, shares currently held on our Domestic Share register may be traded, after the conversion, in the form of [**REDACTED**] on the Stock Exchange after one year of the [**REDACTED**], which could further increase the supply of our [**REDACTED**] in the market and could negatively impact the market price of our [**REDACTED**].

The market price of our Shares when trading commences could be lower than the [REDACTED] as a result of, among other things, adverse market conditions or other adverse developments that could occur between the [REDACTED] and the [REDACTED].

The [**REDACTED**] of our H Shares is expected to be determined by [12:00] p.m. on the [**REDACTED**]. However, our H Shares will not commence trading on the Stock Exchange until they are delivered on the [**REDACTED**], which is expected to be several business days after the [**REDACTED**]. As a result, investors may not be able to sell or otherwise deal in the [**REDACTED**] during that period before they commence trading on the Stock Exchange. Accordingly, holders of our H Shares are subject to the risk that the price of our H 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 [**REDACTED**] and the [**REDACTED**].

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

The [**REDACTED**] of our H Shares is higher than the net tangible asset value per Share immediately prior to the [**REDACTED**]. As a result, purchasers of our [**REDACTED**] in the [**REDACTED**] will experience immediate dilution. Purchasers of our [**REDACTED**] may experience further dilution if the [**REDACTED**] exercise the [**REDACTED**]. There can be no assurance that if we were to immediately liquidate after the [**REDACTED**], any assets will be distributed to Shareholders, and investors would receive less than the amount they paid for our [**REDACTED**]. In addition, 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.

Further, we may be allowed to convert certain of our Domestic Shares into [**REDACTED**] after the [**REDACTED**] if we are qualified pursuant to the relevant CSRC requirements. Such conversion will increase the number of H Shares and your shareholding under the class of holders of our H Shares will be diluted.

The filing or regulatory review of the [REDACTED] by the CSRC or other PRC government authorities may be required under PRC laws.

On February 17, 2023, the CSRC promulgated the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) (the "Overseas Listing Trial Measures") and relevant supporting guidelines, which came into effect on March 31, 2023. The Overseas Listing Trial Measures will comprehensively improve and reform the existing regulatory regime for overseas [**REDACTED**] and [**REDACTED**] of PRC domestic companies' securities and will regulate both direct and indirect overseas [**REDACTED**] and [**REDACTED**] of PRC domestic companies' securities. Any domestic company that is deemed to conduct overseas [**REDACTED**] and [**REDACTED**] activities shall file with the CSRC in accordance with the Overseas Listing Trial Measures.

As advised by our PRC Legal Adviser, the [**REDACTED**] will be considered a direct overseas [**REDACTED**] and [**REDACTED**] activity by a PRC domestic company under the Overseas Listing Trial Measures. Pursuant to the Overseas Listing Trial Measures, where an issuer submits an application for Listing to competent overseas regulators, such issuer must file with the CSRC within three business days after such application is submitted.

Accordingly, our PRC Legal Adviser are of the view that according to the Notice on Arrangements for Filing Administration of Overseas Securities Offering and Listing by Domestic Companies (《關於境內企業境外發行上市備案管理安排的通知》) issued by the CSRC on February 17, 2023, we, as a domestic company that have filed valid applications for [**REDACTED**] but failed to obtain approval from SFC or HKEX at the date of the implementation of the Overseas Listing Trial Measures shall be allowed to set a reasonable time for submitting the filing applications and shall complete the filing with CSRC prior to the [**REDACTED**]. As the Overseas Listing Trial Measures are new, there remain substantial uncertainties as to their interpretation and implementation. We cannot assure you that we could meet such requirements or complete such filing in accordance with the Overseas Listing Trial Measures in a timely manner. Any failure may restrict our ability to complete the [**REDACTED**] or any future equity capital raising activities, which would have a material adverse effect on our business and financial position.

Our Controlling Shareholders have substantial influence over our Company and their interests may not be aligned with the interests of other Shareholders.

Immediately upon the completion of the [**REDACTED**], our Controlling Shareholders will continue to have significant influence over our business and affairs, including decisions of mergers and acquisition, disposition of assets, issuance of additional Shares or other equity securities, timing and amount of dividend payments, and our management. There may be a conflict between the Controlling Shareholders' interests and your interests. In addition, without the approval of the Controlling Shareholders, we could be prevented from entering into transactions that could be beneficial to us. 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.

Our historical dividends may not be indicative of our future dividend policy.

There can be no assurance that future dividends will be declared or paid. The declaration, payment and amount of any future dividends are subject to the discretion of our Directors, after taking into account various factors including but not limited to our results of operations, cash flows and financial condition, operating and capital expenditure requirements, market conditions, our strategic plans and prospects for business development, regulatory restrictions on the payment of dividends and other factors as our Board may deem relevant, and subject to the approval at Shareholders' meeting. Please see "Financial Information — Dividend Policy" for further details.

Certain facts and statistics in this document are derived from various government and third-party sources and may not be reliable.

Certain facts, forecasts and other statistics in this document relating to China and global economy and the smart service robotic products and services industry in China and overseas markets are derived from various sources including official government publications, industry associations or the Industry Report, which we believe are reliable. The information derived from official government sources has not been independently verified by us, the Sole Sponsor, the [**REDACTED**], any of our and their respective directors, officers, representatives, employees or advisers, or any other persons or parties involved in the [**REDACTED**], and no representation is given as to its completeness, accuracy or fairness. Accordingly, the information from official government sources contained herein may not be accurate and should not be unduly relied upon.

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

Prior or subsequent to the publication of this document, there may have been or be press and media coverage regarding us and the [**REDACTED**]. We have not authorized the disclosure of any such information in the press or media. Financial information, financial projections, valuation and other information about us contained in such unauthorized press or media coverage may not truly reflect what is disclosed in the document or the actual circumstances. We do not accept any responsibility for such unauthorized press or media coverage, or for the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information. To the extent any such information appearing in the press and media is inconsistent with, or conflict with, the information contained in this document, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their decisions on the basis of the information contained in this document only and should not rely on any other information.