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Application Proof of



Beijing Fourth Paradigm Technology Co., Ltd. 北京第四範式智能技術股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

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Beijing Fourth Paradigm Technology Co., Ltd.

北京第四範式智能技術股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

[REDACTED]

Number of [REDACTED] under the : [REDACTED] H Shares (subject to the
[REDACTED])
Number of [REDACTED] : [REDACTED] H Shares (subject to
reallocation)
Number of [REDACTED] : [REDACTED] H Shares (subject to
reallocation and the [REDACTED])
Maximum [REDACTED] : HK\$[REDACTED] per H Share, plus
brokerage of 1.0%, SFC transaction
levy of 0.0027%, Hong Kong Stock
Exchange trading fee of 0.005% and
Financial Reporting Council
transaction levy of 0.00015% (payable
in full on application in Hong Kong
dollars
and subject to refund)
Nominal value : RMB1.00 per H share
[REDACTED] : [REDACTED]

Joint Sponsors

Goldman Sachs 高盛

CICC 中金公司

[REDACTED], [REDACTED], [REDACTED] and
[REDACTED]
[REDACTED]

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The [REDACTED] and the [REDACTED], on behalf of the [REDACTED], may, where considered appropriate and with our consent, reduce the number of [REDACTED] and/or the indicative [REDACTED] range below that is stated in this Document (which is HK\$[REDACTED] to HK\$[REDACTED]) at any time prior to the morning of the last day for lodging applications under the [REDACTED]. In such case, notices of the reduction in the number of [REDACTED] and/or the indicative [REDACTED] range will be published on the website of our Company at www.4paradigm.com and on the website of the Hong Kong Stock Exchange at www.hkexnews.hk as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the [REDACTED]. Further details are set forth in the sections headed “Structure of the [REDACTED]” and “How to Apply for [REDACTED]” in this Document.

We are incorporated, and a majority part of our businesses are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investment in PRC-incorporated businesses. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of the H Shares. Such differences and risk factors are set out in the sections headed “Risk Factors,” “Regulatory Overview” and “Summary of Articles of Association” in this Document.

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[REDACTED]

[REDACTED]

IMPORTANT

[REDACTED]

IMPORTANT

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

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SUMMARY

This summary aims to give you an overview of the information contained in this Document. As this is a summary, it does not contain all the information that may be important to you. You should read the entire document before you decide to [REDACTED] in the [REDACTED].

There are risks associated with any [REDACTED]. Some of the particular risks in [REDACTED] in the [REDACTED] are set out in the section headed “Risk Factors” in this Document. You should read that section carefully before you decide to [REDACTED] in the [REDACTED].

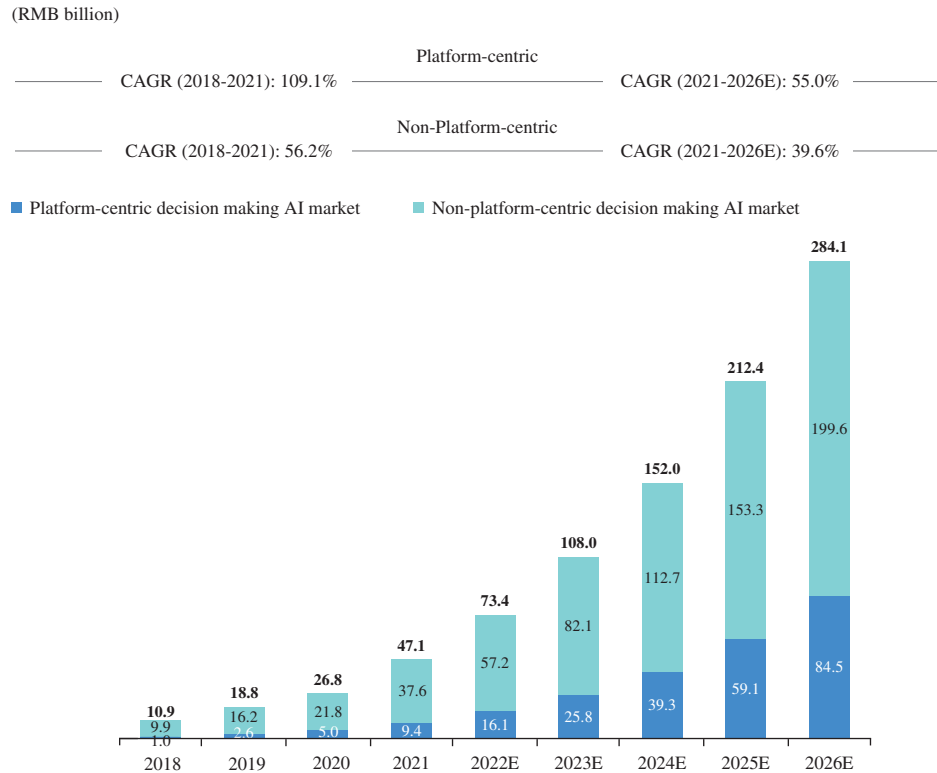
OVERVIEW

We are a leader in enterprise AI. We are an AI software company which focuses on providing platform-centric AI software which enables enterprises to develop their own decision-making AI applications. Our enterprise-level solutions are designed to serve enterprises, rather than individuals. We offer platform-centric AI solutions that can be rapidly deployed by enterprises on a large scale to uncover hidden patterns in data and comprehensively enhance their decision-making capabilities.

We were the largest player by revenue in the platform-centric decision-making AI market, a sub-segment of the AI market, in China in 2021, according to the CIC Report. China’s AI industry can be categorized into four major segments in terms of fields of application: decision-making AI, visual AI, speech and semantics AI and AI robots. Decision-making AI recognizes patterns hidden in data, guides decision-making process on data insights, and addresses issues that are most pertinent to core business operations. Within the decision-making AI market, the platform-centric decision-making AI market in China is a vastly expanding subsegment. As opposed to non-platform-centric solutions, platform-centric solutions provide end users with an AI development platform in addition to AI applications and underlying computing infrastructure. Such platforms provide end users with uniform development standards, high compatibility as well as flexible expansion of applications per actual demands. The following table sets forth a breakdown of China’s decision-making AI industry for the periods indicated.

SUMMARY

Market Size of Decision Making AI Market in China, 2018A-2026E



Source: CIC Report

We have been leading in the research of advanced AI technologies, and are the pioneer to utilize these technologies in commercial solutions. For example, according to CIC, our proprietary AutoML algorithm is a cutting-edge AutoML algorithm in the world. With our AutoML algorithms, we broke the world records of two Open Graph Benchmark (“OGB”) tasks in April 2021. Our AutoML algorithm also ranks top 1% in Kaggle Structured Data and Image Classification Competition 2019. For details, see “Business – Our Technology – AutoML.”

We emphasize value creation. Our solutions have created value for enterprises in a myriad of industries including, but not limited to, finance, retail, manufacturing, energy and power, telecommunications and healthcare. For example, our AI solutions have successfully helped banks enhance anti-fraud accuracy rate, retailers forecast sales volume and formulate precision marketing strategies, manufacturers optimize quality control, and energy companies detect and prevent equipment anomalies and failures. In the year of 2021 and six months ended June 30, 2022, we had 75 and 74 lighthouse users, namely Global Fortune 500 companies and publicly listed companies.

Our platform-centric AI solutions seek to overcome challenges faced by in-house development of AI capabilities and point solutions that are designed for scenario-specific use cases, and allow enterprises to benefit from the advancement of AI technologies to the largest extent possible. We believe, however, that large-scale AI transformation faces the key

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challenges including shortage of experts, high total cost of ownership, long deployment time and data and software incompatibility. Our platform-centric AI solutions seek to overcome challenges faced by in-house development of AI capabilities and point solutions that are designed for scenario-specific use cases, allowing us to capture the massive market opportunities in enterprise AI application. For details, see “Business – Our Market Opportunities” and “Industry Overview – Decision-Making AI Market in China.” Leveraging our core technologies, we have developed end-to-end enterprise AI solutions, which include optional bundling infrastructure, operating system, AI developer suites and applications, that cater for enterprises’ needs across application, platform and infrastructure levels. Sage Platform is the backbone of our solutions. It allows enterprises to easily build their customized AI systems that automate the process of machine learning, application, decision-making and evaluation driven by our AutoML algorithms, featuring quick, simple build-up, low- and/or no-code environment, and implementation without significant involvement of AI experts. Our Sage Platform is primarily composed of the following:

- Sage AIOS is an AI operating system featuring a user-friendly interface, standardized data processing, automated resource management and allocation and fully compatible middleware that are comparable to personal computer operating systems. Specifically, Sage AIOS provides a more user-friendly interface to visualize AI application development and management. Characterized by its user-friendly interface on which users can easily and conveniently design, develop and operate numerous AI applications, Sage AIOS is able to empower enterprises to deploy AI on a large scale. Based on multiple versions of products and underlying technology previously developed by us, we officially launched Sage AIOS in August 2020, an upgraded and integrated AI operating system with expanded features.
- HyperCycle series with no-code development tools and Sage Studio series with low-code and no-code development tools are our core platform-centric AI solutions by which our users can quickly and easily deploy large-scale AI applications.

In addition, we offer ready-to-use AI applications that users could directly deploy to improve their business operations, primarily in the fields of sales and marketing, risk management and operating efficiency in general. We also help users develop customized AI applications on Sage Platform to address their specific business needs.

During the Track Record Period, we have experienced tremendous growth. Our revenue grew by 105.0% from RMB459.5 million in 2019 to RMB942.2 million in 2020, and further by 114.2% to RMB2,018.4 million in 2021. Our revenue grew by 34.3% from RMB788.2 million for the six months ended June 30, 2021 to RMB1,058.2 million for the six months ended June 30, 2022. In line with our revenue growth, we have also experienced increase in our trade receivables, including trade receivables aged over six months. As of December 31, 2019, 2020, 2021 and June 30, 2022, our trade receivables were RMB179.2 million, RMB262.7 million, RMB778.3 million and RMB803.3 million, respectively. For details, see “– Business Sustainability and Path to Profitability – Working Capital Sufficiency.”

SUMMARY

OUR COMPETITIVE STRENGTHS

We believe the following strengths contribute to our success and differentiate us from our competitors:

- Our leading position in platform-centric enterprise AI solutions and core technologies;
- Our end-to-end AI solutions with strong value proposition, continuously driving user success;
- High quality, diverse and loyal user base resulting from our levered go-to-market strategy;
- AI ecosystem to ensure sustainable long-term growth; and
- Strong, experienced and elite management combining academic excellence and business insights.

OUR STRATEGIES

We intend to pursue the following strategies to achieve our long-term goal of helping enterprises achieve AI transformation:

- Further strengthen our R&D capabilities;
- Continue to create value for users and establish industry standards;
- Strengthen collaboration with business partners within our ecosystem; and
- Enhance our commercialization capabilities.

OUR ENTERPRISE AI SOLUTIONS

Driven by our mission to empower AI transformation and advance AI for all businesses, we have developed Sage Platform, a full suite of end-to-end AI solutions that can be rapidly deployed by enterprises on a large scale to uncover hidden patterns in data and facilitate decision-making beyond human capability. Our innovative Sage Platform empowers enterprises with AI development and management capabilities, and enables them to design, develop, and operate AI applications at scale. The plug-and-play and low- and/or no-code nature of Sage Platform lowers the barrier of AI deployment, enabling large-scale deployment within a few days and without involvement of experts or other personnel with significant experience in AI.

- Sage AIOS is an AI operating system featuring user-friendly interface, standardized data processing, automated resource management and allocation and fully compatible middleware that are comparable to personal computer operating systems. Based on multiple versions of products and underlying technology previously developed by us, we officially launched Sage AIOS in August 2020, an upgraded and

SUMMARY

integrated AI operating system with expanded features. Specifically, Sage AIOS provides a more user-friendly interface to visualize AI application development and management. Characterized by its user-friendly interface on which users can easily and conveniently design, develop and operate numerous AI applications, Sage AIOS is able to empower enterprises to deploy AI on a large scale. In addition, as compared to the earlier versions, Sage AIOS standardizes the formats of AI data and resources management, thereby further enhancing the efficiency of AI deployment on a large scale. The earlier versions of Sage Platform only supports our proprietary AI developer suites and self-developed applications, while Sage AIOS is able to support applications developed by other parties, and thus enhances our AI ecosystem. Major components of Sage AIOS include data kernel and runtime kernel. Data kernel is a platform for AI data. By defining the standards and formats of data that are ready for AI applications, data kernel enables users to comprehensively enhance its data quality and modeling efficiency. Runtime kernel is a centralized management kernel for multi-layer computation, memory and communication. Runtime kernel is capable of automatically scheduling and managing heterogeneous resources without affecting user experience, thereby enhancing computation resource utilization rates, and optimize the efficiency of developing AI models and applications.

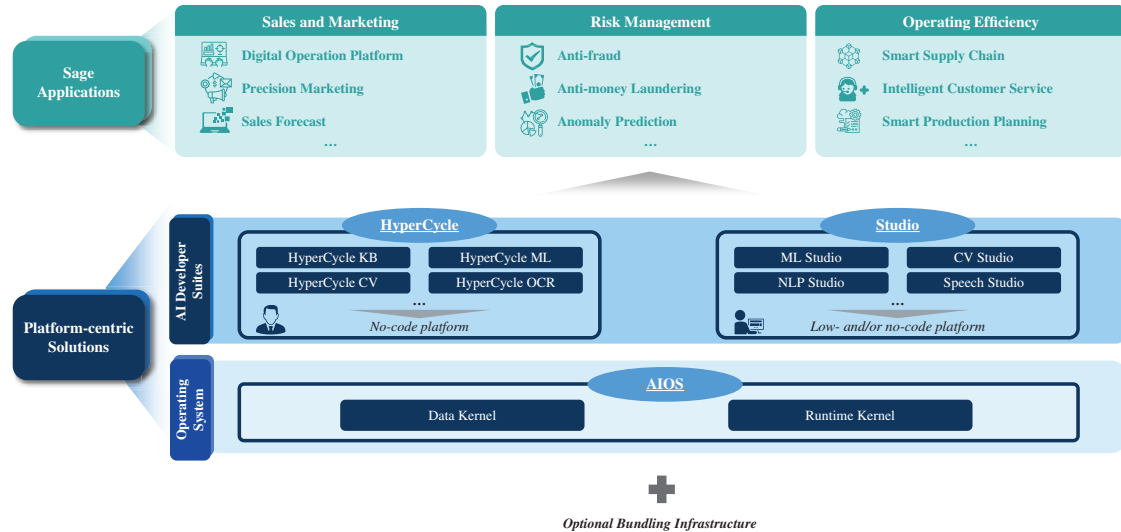
- Built on Sage AIOS, there are two AI developer suites, for which users can choose depending on their coding capabilities, one being the HyperCycle series with no-code development tool and the other one being the Sage Studio series with low-code and no-code development tools. AI applications in different use cases require different types of algorithms. Accordingly, at the users’ choice based on the types of AI applications they want to develop, we offer HyperCycle ML, HyperCycle CV, HyperCycle OCR, HyperCycle KB, ML Studio, CV Studio, NLP Studio and Speech Studio, among others.

On top of our Sage Platform, we also offer a large and growing portfolio of scenario-specific AI applications that address a range of mission-critical use cases and can be readily installed and deployed. Our AI applications are primarily used in areas including sales and marketing, risk management and operating efficiency enhancement. Moreover, in June 2021, we launched our enterprise-level AI application store, which is a marketplace for AI applications at the choice of our users. It integrates a cluster of AI applications developed by us and our partners in the ecosystem on Sage AIOS using our algorithms and standards, thereby readily addressing users’ needs for intelligent operations in different use cases. We do not separately charge the ready-to-use AI applications on our Sage Platform. At our users’ request, we also offer application development services to help them develop customized AI applications on Sage Platform based on their business needs.

Based on the needs of users, we also offer optional bundled infrastructure, which primarily represent SageOne, our software-defined “All-in-One” solutions with pre-built Sage Platform and applications on servers and other related hardware. SageOne maximizes the synergistic effect between software and hardware. Leveraging software-defined optimization of computing, network and storage resources, SageOne improves the output and performance of our AI solutions as compared to running on conventional and generalized architecture servers, thereby empowering organizations to rapidly enhance intelligence in their operations.

SUMMARY

The following diagram illustrates our solution offerings:



REVENUE MODEL

We generate our revenue primarily from (i) Sage Platform and applications and (ii) application development and other services.

The following table sets forth a breakdown of our revenues by types of solutions for the years/periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
<i>(unaudited)</i>										
<i>(in thousands, except for percentages)</i>										
Sage Platform and applications										
Software licensing	64,656	14.1	157,888	16.8	356,156	17.6	106,025	13.5	229,120	21.7
SageOne	189,440	41.2	461,041	48.9	658,398	32.7	270,142	34.2	302,317	28.5
Sub-total	254,096	55.3	618,929	65.7	1,014,554	50.3	376,167	47.7	531,437	50.2
Application development and other services										
	205,422	44.7	323,309	34.3	1,003,845	49.7	412,038	52.3	526,787	49.8
Total	459,518	100.0	942,238	100.0	2,018,399	100.0	788,205	100.0	1,058,224	100.0

SUMMARY

As a platform-centric AI solution provider, we have been dedicated to updating our solutions to provide end users across different industries with unified development environment, standards and rules and to enhance the compatibility of our solutions. As a result of our continuous iteration and optimization efforts, Sage Platform can be generally applied by end users in different industries which do not require significant customization. Our revenue generated from Sage Platform and applications as a percentage of total revenue increased from 55.3% in 2019 to 65.7% in 2020, primarily because (i) we started the comprehensive commercialization of SageOne in June 2019, and (ii) revenue generated from application development and other services as a percentage of our total revenue decreased due to the negative impact of restrictive policies in response to the outbreak of COVID-19, which made it difficult for us to provide on-site services to our customers. Our revenue generated from Sage Platform and applications as a percentage of our total revenue decreased from 65.7% in 2020 to 50.3% in 2021, as the percentage of total revenue attributed to our application development and other services increased over the same years, driven by the increased demand for customized AI applications due to the expansion of our user base in 2021, and to a lesser extent, attributable to the recovery from the negative impact of COVID-19. Our revenue generated from Sage Platform and applications as a percentage of total revenue increased from 47.7% in the six months ended June 30, 2021 to 50.2% in the six months ended June 30, 2022, primarily due to the increase of revenue contribution of software licensing, which requires less on-site services than our other segments, and thus was less affected by the recurrence of COVID-19 in 2022.

Sage Platform and Applications

Sage Platform and applications are delivered primarily through (i) license of software installed on-premise at servers of our end users and (ii) SageOne, our “All-in-One” solutions with pre-installed software on servers and other related hardware, both of which allow our users to develop their own AI applications on Sage Platform. Our Sage Platform and applications are offered as a bundle. Users select the types of Sage Platform and applications and the delivery method based on their needs.

Our Sage Platform and applications are primarily offered through software license and sale of SageOne, rather than on a subscription basis. We are dedicated to creating value for users and addressing their business needs with our solutions. After we help them identify the critical issues, provide solutions and achieve the objectives of business improvement, they will make repeated purchases from us after identifying incremental business needs for AI application within their operations, and expanding their use of our solutions. As our users develop more AI applications for new use cases on our platform and/or increase usage in existing use cases which require more computing power, they will need to purchase additional licenses from us for additional computing power, which in turn allows us to capture additional monetization opportunities after the initial sale. The pricing of Sage Platform and applications are primarily based on the estimated computing power consumption. Based on communications with users, we understand their business needs and estimate the computing power consumption based on the complexity of the use cases, dimensions of the AI models, and the estimated amount of data involved therein.

- The price of our software license is primarily based on the estimated computing power consumption by reference to the AI applications our users plan to deploy. We consider data volume and other specific requests such as the latency, concurrency, queries per seconds, and the number of replicas, among others.

SUMMARY

- To complement the sales of software, we also offer SageOne, our software-defined “All-in-One” solutions with pre-built Sage Platform and applications on servers and other related hardware. We charge customers of SageOne by taking into account the number of hardware units, license fees of our software and cost of hardware based on respective model. Hardware units of SageOne refer to units of different models of servers.

Application Development and Other Services

At our users’ request, we primarily offer application development services to help them develop customized AI applications on Sage Platform based on their business needs. We charge them on a project basis, the pricing of which is primarily based on the manpower consumption of the relevant services. As our users’ demand for AI applications increases with their business expansion, they will continue to procure our application development services, allowing us to capture more service fees on an on-going basis.

OUR CUSTOMERS

We have two main categories of customers: (i) direct customers who are end users purchasing our solutions directly; and (ii) solution partner customers, who are mainly third-party system integrators that embed our solutions into their offering to cater for end users’ specific needs. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, revenue generated from direct customers accounted for 21%, 15%, 43%, 29% and 30% of our total revenue, respectively. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, revenue generated from solution partner customers accounted for 79%, 85%, 57%, 71% and 70% of our total revenue, respectively. We typically grant a credit term ranging from 3 to 6 months for direct customers and solution partner customers. Our top five customers in aggregate accounted for 40.9%, 17.4%, 11.1% and 27.0% of our total revenues in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. Our largest customer accounted for approximately 20.6%, 5.2%, 2.8% and 6.9% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

Our end users, which are the actual users of our platform, include both our direct customers and end users which engaged by solutions partners. Certain end users of our solutions, especially banks and other companies in the finance industry, use system integrators when selecting suppliers or service providers, to save them from the trouble of directly negotiating with a large number of different suppliers or service providers and to benefit from the various other services provided by such system integrators. For lighthouse users, we either directly enter into contracts with them or through solution partners. Our lighthouse users are primarily covered by our in-house sales team who promote our solutions to such lighthouse users, and the ultimate decisions as to choose our solutions are primarily made by the lighthouse users.

SUMMARY

The following table sets forth the revenue contribution by industry of our end users during the Track Record Period.

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Percentage		Percentage		Percentage		Percentage		Percentage	
	Transaction	of Total	Transaction	of Total	Transaction	of Total	Transaction	of Total	Transaction	of Total
	Amounts	Revenue	Amounts	Revenue	Amounts	Revenue	Amounts	Revenue	Amounts	Revenue
	(RMB'000)		(RMB'000)		(RMB'000)		(RMB'000)		(RMB'000)	
	(unaudited)									
Finance	236,696	51.5%	292,469	31.0%	576,550	28.6%	204,396	25.9%	164,071	15.5%
Energy and Power	59,575	13.0%	138,294	14.7%	441,964	21.9%	168,371	21.4%	229,460	21.7%
Retail	29,194	6.3%	100,812	10.7%	176,758	8.8%	57,596	7.3%	67,656	6.4%
Telecommunication	36,859	8.0%	73,145	7.8%	175,380	8.7%	58,752	7.4%	124,182	11.7%
Education	50,920	11.1%	66,665	7.1%	124,228	6.2%	68,169	8.6%	78,846	7.5%
Technology	nil	nil	64,496	6.9%	138,482	6.9%	45,016	5.7%	56,213	5.3%
Media	16,401	3.6%	53,955	5.7%	134,660	6.7%	66,881	8.5%	24,539	2.3%
Manufacturing	9,308	2.0%	23,833	2.5%	102,461	5.1%	21,972	2.8%	52,724	5.0%
Healthcare	nil	nil	nil	nil	57,359	2.8%	30,408	3.9%	51,212	4.8%
Transportation	nil	nil	nil	nil	nil	nil	nil	nil	108,734	10.3%
Others	20,565	4.5%	128,569	13.6%	90,556	4.5%	66,644	8.5%	100,587	9.5%
Total	459,518	100%	942,238	100%	2,018,399	100.0%	788,205	100.0	1,058,224	100.0

OUR SUPPLIERS

Our suppliers primarily consist of (i) providers of research and development services, (ii) providers of implementation services and (iii) providers of servers and cloud services and providers of other professional services. Our top five suppliers in aggregate accounted for 21.9%, 13.7%, 21.7% and 23.9% of our total purchases in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. Our largest supplier accounted for approximately 6.4%, 3.4%, 6.5% and 6.3% of our total purchases in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

COMPETITION

We face competition in China’s decision-making AI market from other AI solution providers. The principal competitive factors in our industry include functionality, scope and performance of solutions, scalability and reliability of services, technology capabilities, marketing and sales capabilities, user experience, pricing, brand recognition and reputation. In addition, new and enhanced technology may further increase competition in our industry. We believe that we are well positioned to compete effectively on the basis of the foregoing factors.

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Nevertheless, some of our existing competitors have greater name recognition, broader global footprint, longer operating histories, larger user bases as well as greater financial, technical and other resources. See “Risk Factors – Risks Related to Our Business and Industry – If we fail to compete effectively, our business, financial condition and results of operations may be materially and adversely affected” in this Document. For more information on the competitive landscape of our industry, see “Industry Overview.”

RISK FACTORS

Our business faces risks including those set out in the section headed “Risk Factors.” As different [REDACTED] may have different interpretations and criteria when determining the significance of a risk, you should read the “Risk Factors” section in its entirety before you decide to [REDACTED] in our H Shares. Some of the major risks that we face include:

- AI technologies are constantly evolving. Any flaws or inappropriate usage of AI technologies, whether actual or perceived, whether intended or inadvertent, whether committed by us or by other third parties, could have negative impact on our business, reputation and the general acceptance of AI solutions by the society.
- Our business depends substantially on continuing efforts of our senior management and other key personnel, as well as a competent pool of talents who support our existing operations and future growth. If we are unable to retain, attract, recruit and train such personnel, our business may be materially and adversely affected.
- The industries in which we operate are characterized by constant changes. If we fail to continuously innovate our technology and provide useful solutions that meet the expectations of our customers, our business, financial condition and results of operations may be materially and adversely affected.
- We may not be able to sustain our historical growth rates, and our historical growth may not be indicative of our future growth or financial results.
- We are investing heavily on our research and development, and such investment may negatively impact our profitability and operating cash flow in the short term and may not generate the results we expect to achieve.
- We have recorded net losses, net liabilities and operating cash outflow during the Track Record Period, and we may not be able to achieve or subsequently maintain profitability.
- Our solutions are primarily not offered on a recurring subscription basis. If we fail to retain existing customers, attract new customers or increase the spending by our customers, our business and results of operations may be materially and adversely affected.
- If we fail to compete effectively, our business, financial condition and results of operations may be materially and adversely affected.
- We may be subject to complex and evolving laws and regulations regarding privacy and data protection. Actual or alleged failure to comply with privacy and data protection laws and regulations could damage our reputation, deter current and potential customers from using our solutions and could subject us to significant legal, financial and operational consequences.
- The trading price of our H Shares may be volatile, which could result in substantial losses to you.

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SUMMARY OF KEY FINANCIAL INFORMATION

The following tables summarize our consolidated financial results during the Track Record Period and should be read in conjunction with the section headed “Financial Information” of this Document and the Accountant’s Report set out in Appendix I to this Document, together with the respective accompanying notes.

Summary of Statements of Comprehensive Income

	For the year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(unaudited)</i>				
	<i>(RMB in thousands)</i>				
Revenue	459,518	942,238	2,018,399	788,205	1,058,224
Cost of sales ⁽¹⁾	(259,437)	(512,503)	(1,064,924)	(441,306)	(529,239)
Gross profit	200,081	429,735	953,475	346,899	528,985
Selling and marketing expenses ⁽¹⁾	(135,817)	(247,829)	(455,001)	(236,500)	(171,716)
General and administrative expenses ⁽¹⁾	(224,482)	(246,493)	(541,730)	(444,332)	(146,009)
Research and development expenses ⁽¹⁾	(416,418)	(565,674)	(1,249,485)	(578,324)	(557,949)
Credit loss allowance	(1,875)	(1,992)	(15,206)	(5,761)	(257)
Other income	10,390	42,583	41,627	13,957	28,516
Other gains, net	17,178	29,604	93,514	47,153	42,109
Operating loss	(550,943)	(560,066)	(1,172,806)	(856,908)	(276,321)
Share of (losses)/profits of investments accounted for using the equity method	(4,228)	(6,477)	3,802	(1,878)	(717)
Finance income	2,383	6,038	24,416	6,909	17,148
Finance costs	(163,935)	(188,978)	(647,111)	(329,778)	(328,470)
Loss before income tax	(716,723)	(749,483)	(1,791,699)	(1,181,655)	(588,360)
Income tax (expenses)/credit	(1,503)	(727)	(10,369)	(5,777)	4,542
Loss for the year/period	(718,226)	(750,210)	(1,802,068)	(1,187,432)	(583,818)
Loss attributable to:					
Owners of the Company	(716,576)	(749,650)	(1,785,655)	(1,184,970)	(566,743)
Non-controlling interests	(1,650)	(560)	(16,413)	(2,462)	(17,075)
	(718,226)	(750,210)	(1,802,068)	(1,187,432)	(583,818)

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Note:

- (1) Share-based compensation expenses recognized for the Track Record Period were allocated as follows:

	For the year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
				(unaudited)	
	(RMB in thousands)				
Cost of sales	1,994	1,104	4,603	4,603	—
Selling and marketing expenses	36,045	20,726	98,341	98,341	—
General and administrative expenses	134,830	126,467	368,250	368,250	—
Research and development expenses	60,363	25,368	132,440	132,440	—
Total	233,232	173,665	603,634	603,634	—

Non-IFRS Measures

To supplement our consolidated financial statements presented in accordance with IFRS, we use adjusted operating loss (a non-IFRS measure) and adjusted net loss (a non-IFRS measure) as additional financial measures, which are not required by, or presented in accordance with IFRS. We believe that these non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of certain items. We believe that these measures provide useful information to [REDACTED] in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, presentation of adjusted operating loss (a non-IFRS measure) and adjusted net loss (a non-IFRS measure) may not be comparable to similarly titled measures presented by other companies. The use of these non-IFRS measures has limitations as an analytical tool, and [REDACTED] should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial conditions as reported under IFRS.

Adjusted Operating Loss and Adjusted Net Loss (non-IFRS measures)

We define adjusted operating loss (a non-IFRS measure) as operating loss by adding back share-based compensation and [REDACTED] expenses. We define adjusted net loss (a non-IFRS measure) as loss for the year/period by adding back share-based compensation, interest expense on redemption liabilities and [REDACTED] expenses. The following table reconciles our adjusted operating loss (a non-IFRS measure) and adjusted net loss (a non-IFRS measure) presented to the most directly comparable financial measures calculated and presented in accordance with IFRS, namely operating loss and net loss, respectively, and as a percentage of our total revenue.

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(unaudited)									
	(RMB in thousands, except for percentage)									
Reconciliation of operating loss and adjusted operating loss										
Operating loss	(550,943)	(119.9)	(560,066)	(59.4)	(1,172,806)	(58.1)	(856,908)	(108.7)	(276,321)	(26.1)
Add:										
Share-based compensation [REDACTED] expenses	233,232 [REDACTED]	50.8 [REDACTED]	173,665 [REDACTED]	18.4 [REDACTED]	603,634 [REDACTED]	29.9 [REDACTED]	603,634 [REDACTED]	76.6 [REDACTED]	– [REDACTED]	– [REDACTED]
Adjusted operating loss	(317,711)	(69.1)	(386,401)	(41.0)	(568,500)	(28.2)	(253,274)	(32.1)	(219,947)	(20.8)

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	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(unaudited)									
	(RMB in thousands, except for percentage)									
Reconciliation of loss for the year/period and adjusted net loss										
Loss for the year/period	(718,226)	(156.3)	(750,210)	(79.6)	(1,802,068)	(89.2)	(1,187,432)	(150.7)	(583,818)	(55.2)
Add:										
Share-based compensation	233,232	50.8	173,665	18.4	603,634	29.9	603,634	76.6	-	-
Interest expense on redemption liabilities	162,513	35.3	186,240	19.8	638,682	31.6	328,414	41.7	323,546	30.6
[REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Adjusted net loss	(322,481)	(70.2)	(390,305)	(41.4)	(559,080)	(27.7)	(255,384)	(32.4)	(203,898)	(19.3)

Our management considers that (i) share-based compensation, which relates to share options that we awarded to our employees for their contribution to us, is non-cash in nature and does not result in cash outflow, (ii) interest expense on redemption liabilities is a non-cash item, and (iii) [REDACTED] expenses, which relate to this [REDACTED]. Therefore, by eliminating the impacts of such items in the calculation of non-IFRS adjusted operating loss (a non-IFRS measure) and adjusted net loss (a non-IFRS measure), this measure could better reflect our underlying operating performance and could better facilitate the comparison of operating performance from year to year and from period to period.

Description of Key Statement of Comprehensive Income Items

In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, we had revenue of RMB459.5 million, RMB942.2 million, RMB2,018.4 million, RMB788.2 million and RMB1,058.2 million, respectively. Increases in our revenue were primarily driven by the expansion of our user base and the increased spending of our users. More specifically, our revenue increased by 34.3% from the six months ended June 30, 2021 to the six months ended June 30, 2022, primarily attributable to the increase generated by our Sage Platform and applications driven by the expansion of our user base, as well as increased user spending especially on software licensing. Our revenue increased by 114.2% from 2020 to 2021, primarily attributable to the increase generated by our application development and other services due to (i) the increase of our use cases and users that need customized AI applications on Sage Platform, and (ii) the recovery from the negative impact of COVID-19 pandemic. Our revenue increased by 105.0% from the 2019 to 2020, primarily attributable to the increase generated by our Sage Platform and applications due to our business expansion efforts. In line with our revenue growth, our gross profit was RMB200.1 million, RMB429.7 million, RMB953.5 million, RMB346.9 million and RMB529.0 million in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. Our overall gross profit margin increased from 43.5% in 2019 to 45.6% in 2020 primarily due to our optimized cost structure as a result of the advancement of our solutions, and further to 47.2% in 2021, primarily due to the increase of revenue contribution of application development and other services, which had relatively high gross profit margins, mainly as a result of recovery from the negative impact of COVID-19. Our overall gross profit margin increased from 44.0% for the six months ended

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June 30, 2021 to 50.0% for the six months ended June 30, 2022 primarily due to the increase of revenue contribution of software licensing, which had relatively high gross profit margins, as software licensing requires less on-site services than our other segments, and thus was less affected by the recurrence of COVID-19 in 2022.

In 2019, 2020 and 2021, we incurred net loss of RMB718.2 million, RMB750.2 million and RMB1,802.1 million, respectively. The increases in net losses were primarily due to the increases of: (i) research and development expenses incurred to develop and enhance our solutions and technology stacks, (ii) selling and marketing expenses incurred to increase our brand awareness and expand our user base, (iii) general and administrative expenses, which are mainly attributable to share-based compensation paid to our employees, and (iv) interest expense on redemption liabilities in relation to certain nonrecurring preferred rights granted to our investors, which is non-recurring in nature. Our net loss decreased from RMB1,187.4 million to RMB583.8 million from the six months ended June 30, 2021 to the six months ended June 30, 2022, primarily due to the decrease of our share-based compensation expenses.

For details, see “Financial Information – Description of Key Statement of Comprehensive Income Items.”

Business Sustainability and Path to Profitability

Introduction

We were loss-making during the Track Record Period. In 2019, 2020, 2021 and the six months ended June 30, 2022, we incurred net loss of RMB718.2 million, RMB750.2 million, RMB1,802.1 million and RMB583.8 million, respectively. The net losses were primarily due to the substantial amount of: (i) research and development expenses incurred to develop and enhance our solutions and technology stacks, see “Business – Research and Development,” (ii) selling and marketing expenses incurred to increase our brand awareness and expand our user base, (iii) general and administrative expenses, which are mainly attributable to share-based compensation paid to our employees, and (iv) interest expense on redemption liabilities in relation to certain preferred rights granted to our investors, which is non-recurring in nature. In 2019, 2020, 2021 and the six months ended June 30, 2022, our adjusted net loss (a non-IFRS measure), which is defined as loss for the year by adding back share-based compensation, interest expense on redemption liabilities and [REDACTED] expenses, amounted to RMB322.5 million, RMB390.3 million and RMB559.1 million and RMB203.9 million, respectively. Our net loss increased from RMB750.2 million in 2020 to RMB1,802.1 million in 2021, primarily due to the substantial amount of (i) share-based compensation paid to our employees recognized as cost of sales, selling and marketing expenses, general and administrative expenses and research and development expenses and (ii) interest expense on redemption liabilities in relation to certain preferred rights granted to our investors, which is non-recurring in nature. Our net loss decreased from RMB1,187.4 million for the six months ended June 30, 2021 to RMB583.8 million for the six months ended June 30, 2022, primarily due to the decrease of our share-based compensation expenses. As we are still at a relatively early stage of our monetization efforts, we have been focusing on continuously optimizing our solutions and expanding our user base.

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We plan to continue to enhance our financial performance by (i) effectively attracting and retaining our users, (ii) continuing to create value for users to further monetize our solutions, and (iii) effectively managing our cost and expenses, and enhancing operating leverage. Despite our continued expansion in user base, increase in average revenue per lighthouse user and enhanced capability to manage our cost and expenses, **we may continue to incur net losses and net operating cash outflow in the near future, including the year ended December 31, 2022**, mainly due to our continued investments in research and development of our technologies and solutions, marketing initiatives as well as share-based compensation.

Effectively attracting and retaining our users

Effectively attracting new users and retaining existing users is crucial to driving revenue growths, and ultimately our ability to achieve profitability. The following table sets forth the numbers of our users and lighthouse users for the years/periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
Number of users	79	156	245	126	197
Number of lighthouse users					
for the previous year	18	32	47	N/A	N/A
Additions	20	21	33	N/A	N/A
Less ⁽¹⁾	6	6	5	N/A	N/A
Number of lighthouse users					
for the year/period	32	47	75	38	74

Note:

- (1) Refers to lighthouse users in the previous year that ceased to be regarded as our lighthouse users in the given year. However, the business relationship with such users has not been terminated. We have been providing ongoing supporting services to such lighthouse users under our standard service arrangement. Such users ceased to be our lighthouse users in the given year solely because we did not generate revenue from such users in such year from an accounting perspective.

As a result of our effective go-to-market strategy, we had 32, 47, 75, 38 and 74 lighthouse users in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. In 2019, 2020 and 2021, we acquired 20, 21 and 33 new lighthouse users, respectively, illustrating the value of our solutions and our ability to expand our business. Lighthouse users refer to end users of Sage Platform which are either Global Fortune 500 companies or publicly listed companies. Our lighthouse users contributed 58%, 61%, 51%, 50% and 62% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. Therefore, growth in revenue from lighthouse users is a key driver in our overall revenue growth. Moreover, our expanding base of lighthouse users also help us to attract other users, which in turn further drives our revenue growth. Our initial success with lighthouse users enables us to further penetrate the respective industry and provide solutions to other players in the industry efficiently. As a result, we have accumulated a strong and rapidly growing total user base including both lighthouse users and other users, with 79, 156, 245, 126 and 197 in

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2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. The effectiveness of our go-to-market strategy is evidenced by the rapid growth in the number of other users during the Track Record Period, representing a CAGR of 90.2% from 2019 to 2021, as compared to a CAGR of 53.1% for lighthouse users during the same periods, reflecting our ability to penetrate into a larger user base following initial success with lighthouse users.

We plan to further implement our “go-to-market” strategy by strengthening our relationships with lighthouse users and further penetrate into a larger user base. We also work closely with third-party solution partners and leverage their understanding of end users’ demands, thereby developing tailored marketing strategies to acquire more users. As our existing users, in particular our lighthouse users, benefit from our solutions in more and more use cases, we will naturally be able to establish industry standards and attract more new users across sectors. We are able to leverage our experience and success in existing industry and scenario to expand into new industries with similar scenario. For example, successes in intelligent recommendation scenario in the restaurant industry can be leveraged when we are entering into other industries, such as fashion, which also have demands for intelligent recommendation. In addition, we will further optimize and enhance the functions of our solutions so that they can be applied in new scenarios and verticals. Moreover, we plan to recruit and retain talents with in-depth industry knowledge to strengthen our sales and marketing team, thereby leveraging their industry-specific sales experiences to expand users in new industries.

Continuing to create value for users to further monetize our solutions

We are dedicated to creating value to our users. As a result, we are able to explore additional monetization opportunities to help us scale up our revenues and to achieve profitability.

We plan to continue to create value for users and address their business needs by optimizing our solutions, innovating our technologies, providing satisfying customer services, among others. After we help them identify the critical issues, provide solutions and achieve the objectives of business improvement, they usually identify incremental business needs for AI within their operations and expand their use of our solutions. Moreover, as our users develop more AI applications for new use cases on our platform and/or increase usage in existing use cases which require more computing power, they will need to purchase additional licenses from us for additional computing power, which in turn allows us to capture additional monetization opportunities after the initial sale. The average revenue per lighthouse user amounted to RMB8.3 million, RMB12.3 million, RMB13.7 million, RMB10.3 million and RMB8.9 million in 2019, 2020, 2021 and in the six months ended June 30, 2021 and 2022, respectively, illustrating our ability to further monetize our solutions. For the years ended December 31, 2019, 2020 and 2021, our revenue generated from existing lighthouse users amounted to RMB177.1 million, RMB445.8 million and RMB808.2 million, respectively, representing 66.4%, 77.0% and 78.5% of total revenue generated from lighthouse end users for the same periods, respectively. Driven by our successful value creation for lighthouse users, our overall average revenue per user amounted to RMB5.7 million, RMB5.8 million, RMB6.9 million, RMB5.6 million and RMB5.4 million in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. For the six months ended June 30, 2022, our average revenue per

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lighthouse user and our overall average revenue per user were RMB8.9 million and RMB5.4 million, respectively, as compared to RMB10.3 million and RMB5.6 million for the six months ended June 30, 2021, primarily because (i) the recurrence of COVID-19 in 2022 had caused temporary disruption to our projects, to the extent that necessary on-site meetings, deployment and technical support had to be delayed or cancelled; and (ii) we acquired significant number of new users in the first half of 2022, which generally contributed lower revenue in the early stage of business cooperation.

Effectively managing our cost and expenses, and enhancing operating leverage

Our ability to manage and control our costs and operating expenses is critical to the success of our business and our profitability.

Our cost structure is affected by the mix of our solution offerings. For example, with the launch of SageOne, we incurred an increased cost of finished goods sold as a percentage of revenue during the Track Record Period. We expect our cost of revenues as a percentage of revenue may vary from period to period in the short term as a result of the mix of our solution offerings, while it will generally decrease in the long term due to the following factors:

- As we continue to optimize our algorithms and to enhance the compatibility of software and hardware, we expect to improve the computing efficiency of our solutions, which enables us to enhance user experience while optimizing cost structure; and
- We have invested heavily in developing technology capabilities and infrastructure, in order to provide highly scalable, standardized and flexible solutions for our users. The solutions we offer are highly modularized, which allows us to address users’ customized demands effectively and efficiently, and in turn, enabling us to achieve significant overall cost and operating efficiency.

Our selling and marketing expenses (excluding share-based compensation) accounted for 21.7%, 24.1%, 17.7%, 17.5% and 16.2% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. We expect that our sales and marketing expenses as a percentage of total revenue will generally decrease in the long term due to the following factors:

- Our go-to-market strategy starts with market leaders in each industry we target to enter who are also early adopters of AI. We are able to leverage our experience and success in existing industry and scenario to expand into new industries with similar scenario. We demonstrate the value of our solutions through one or a few entry projects. Once our value has been proven, we are then able to expand our services quickly to address other business needs of our users. As a result of our go-to-market strategy, after we succeed with the lighthouse users, we leverage our understanding of the industries, our reputation established through collaborating with industry leaders, and our AI ecosystem to further enhance our influence in such industries, enabling us to further penetrate and provide solutions to other players, without incurring significant sales and marketing efforts;

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- We expect to accumulate a larger user base and higher user stickiness as we continuously solidify our market leadership. We expect this to enable us to attract and retain users and, in the long-term, reduce spending on promotions and advertisements. As our users develop more AI applications for new use cases on our platform and/or increase usage in existing use cases which require more computing power, they will need to purchase additional licenses from us for additional computing power, which in turn allows us to capture additional monetization opportunities with low marginal cost after the initial sale and improve our profitability;
- We expect to benefit from more efficient user acquisition through word-of-mouth referrals and enhanced brand awareness. With our established brand reputation and large user bases, we expect to continuously generate significant word-of-mouth referrals and organic user growth; and
- We plan to strengthen our relationships with solution partners to retain and expand our user base across various industries, which will help improve our sales and marketing efficiency in the long run.

Our general and administrative expenses (excluding share-based compensation) accounted for 19.5%, 12.7%, 8.6%, 9.7% and 13.8% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. We expect that our general and administrative expenses as a percentage of total revenue will generally decrease in the long term, as the major expense component, employee benefit expenses, generally do not increase proportionally with our revenue growth.

Our research and development expenses (excluding share-based compensation) accounted for 77.5%, 57.3%, 55.3%, 56.6% and 52.7% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. While we will continue to invest in research and development capabilities to support our long term growth, we expect that our research and development expenses will generally decrease as a percentage of total revenue in the long term, as (i) we expect to have stronger bargaining power against our suppliers for outsourced R&D services as we scale up, and are thus able to obtain more favorable pricing terms, and (ii) the major expense component, employee benefit expenses, generally do not increase proportionally with our revenue growth, and thus we are able to enjoy economies of scale as we scale up. We plan to (i) further strengthen our existing core technologies, and (ii) invest in the research and development team of new areas which may lead to the next generation of AI technologies. For example, we are dedicated to developing technologies in the area of data privacy protection, including privacy preserving learning, which is able to enhance data privacy in the process of machine learning, and federated learning which entails training algorithm on local datasets without exchange data samples, thereby enhancing data security and privacy. For details, see “Business – Research and Development.

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Our future profitability is uncertain and subject to various factors, including our ability to develop new technologies, enhance user experience, establish effective monetization strategies, compete effectively and successfully, and continuously grow revenues and our user base in a cost-effective way by improving our operational efficiency. For details, see “Risk Factors – Risks Related to Our Business and Industry – We have recorded net losses, net liabilities and operating cash outflow during the Track Record Period, and we may not be able to achieve or subsequently maintain profitability.”

Working Capital Sufficiency

In line with our revenue growth, we have experienced increase in our trade receivables, particularly the trade receivables aged over six months, during the Track Record Period. The following table sets forth the ageing analysis of our trade receivables based on invoice date as of the dates indicated.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>(RMB in thousands)</i>			
Up to 3 months	104,818	126,601	403,264	344,562
3 to 6 months	43,855	87,412	231,336	125,929
6 months to 1 year	33,107	24,432	128,141	260,917
Over 1 year	681	29,564	35,741	90,596
Less: Credit loss allowance	(3,251)	(5,310)	(20,161)	(18,683)
Trade receivable, Net	179,210	262,699	778,321	803,321

We are exposed to credit risk related to defaults of our customers. For details, see “Risk Factors – Risk Related to Our Business and Industry – We are subject to credit risk related to defaults of customers, and any significant default on our receivables could materially and adversely affect our liquidity, financial condition and results of operations.”

We have recorded net cash used in operating activities of RMB394.6 million, RMB452.9 million, RMB770.0 million and RMB356.3 million, in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively, primarily due to the net loss recorded and increases in our trade receivables, mainly due to our business growth. For details, see “Financial Information – Liquidity and Capital Resources.” For details of our ability to improve our net operating cash flow, see “– Key Financial Ratios – Summary of Consolidated Statements of Cash Flows.”

Our principal capital expenditures relate primarily to (i) property and equipment, including leasehold improvements, computer and electric equipment, and office furniture and equipment, and (ii) intangible assets, primarily including software and copyrights and intangible assets recognized as a result of our acquisition of subsidiaries. In 2019, 2020, 2021 and the six months ended June 30, 2022, we incurred capital expenditures of RMB25.1 million, RMB51.3 million, RMB416.8 million and RMB103.9 million, respectively.

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Sufficient working capital is essential to our ability to successfully execute our growth strategies, and thus to enhance our business sustainability. To ensure working capital sufficiency, we plan to enhance our working capital management efficiency, improve our management of trade receivables and increase the focus on trade receivable collection. We also expect to be able to enjoy economics of scale as we scale up, which will further improve our net operating cash outflow positions. Furthermore, taking into account (i) the financial resources available to us, including a total of RMB3,920.0 million liquid cash resources as of June 30, 2022 (that include cash and cash equivalents, short-term and long-term bank deposits, short-term investments measured at fair value through profit or loss, restricted cash), (ii) the portion of the estimated net [REDACTED] from the [REDACTED] expected to be used for working capital and general corporate purposes, (iii) our good track record in being able to raise money from renowned investors to finance our business, as evidenced by our historical fund-raising activities, and (iv) our plans to continue to enhance our financial performance, our Directors believe that we have sufficient working capital for our present requirements and for the next 12 months from the date of this Document.

KEY OPERATING METRICS

The following table sets forth the key operating metrics for the years/periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
Number of users	79	156	245	126	197
Number of lighthouse users	32	47	75	38	74
Average revenue per lighthouse user (RMB million)	8.3	12.3	13.7	10.3	8.9

As a result of our effective go-to-market strategy, we had 32, 47, 75, 38 and 74 lighthouse users in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. Our initial success with lighthouse users enable us to further penetrate the respective industry and provide solutions to other players in the industry efficiently. As a result, we have accumulated a strong and rapidly growing total user base including both lighthouse users and other users, with 79, 156, 245, 126 and 197 in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively.

We are dedicated to creating value to our users. We plan to continue to create value for users and address their business needs by optimizing our solutions, innovating our technologies, providing satisfying customer services, among others. After we help them identify the critical issues, provide solutions and achieve the objectives of business improvement, they usually identify incremental opportunities within their operations and expand their use of our solutions. Moreover, as our users develop more AI applications for new use cases on our platform and/or increase usage in existing use cases which require more computing power, they will need to purchase additional licenses from us for additional computing power, which in turn allows us to capture additional monetization opportunities after the initial sale. The average revenue per lighthouse user amounted to RMB8.3 million, RMB12.3 million, RMB13.7 million, RMB10.3 million and RMB8.9 million in 2019, 2020,

SUMMARY

2021 and the six months ended June 30, 2021 and 2022, respectively. Our average revenue per lighthouse user decreased from RMB10.3 million for the six months ended June 30, 2021 to RMB8.9 million, primarily because (i) the recurrence of COVID-19 in 2022 had caused temporary disruption to our projects, to the extent that necessary on-site meetings, deployment and technical support had to be delayed or cancelled; and (ii) we acquired significant number of new users in the first half of 2022, which generally contributed lower revenue in the early stage of business cooperation.

Driven by our expanding user base and increasing spending from existing users, we have experienced tremendous revenue growth during the Track Record Period. Our revenue grew by 105.0% from RMB459.5 million in 2019 to RMB942.2 million in 2020, and further by 114.2% to RMB2,018.4 million in 2021. Our revenue grew by 34.3% from RMB788.2 million for the six months ended June 30, 2021 to RMB1,058.2 million for the six months ended June 30, 2022.

KEY FINANCIAL RATIOS

We believe that our revenue growth, gross profit margin and contribution margin are important measures of our operation efficiency over time. Revenue growth rate shows the period-over-period growth rate of our total revenue, and gross profit margin equals revenue less cost of sales divided by revenue. Contribution margin is defined as a percentage of contribution bearing to revenue. Contribution is defined as revenue less cost of sales and selling and marketing expenses. The following table sets forth a summary of our key financial ratios for the years/periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
	%	%	%	%	%
Revenue growth	N/A	105.0	114.2	N/A	34.3
Gross profit margin	43.5	45.6	47.2	44.0	50.0
Contribution margin	14.0	19.3	24.7	14.0	33.8

As a result of our continuous business expansion, our revenue growth rate was 105.0% in 2020 compared to 2019, 114.2% on 2021 compared to 2020 and 34.3% in the six months ended June 30, 2022 compared to the corresponding period in 2021. Our overall gross profit margin increased from 43.5% in 2019 to 45.6% in 2020 primarily due to our optimized cost structure as a result of the advancement of our solutions, and further to 47.2% in 2021, primarily due to the increase of revenue contribution of application development and other services, which had relatively high gross profit margins, mainly as a result of recovery from the negative impact of COVID-19. Our overall gross profit margin increased from 44.0% for the six months ended June 30, 2021 to 50.0% for the six months ended June 30, 2022, mainly as a result of the increase of revenue contribution of software licensing, which had relatively high gross profit margins, as software licensing requires less on-site services than our other segments, and thus was less affected by the recurrence of COVID-19 in 2022. Our contribution margin increased from 14.0% in 2019 to 19.3% in 2020 and 24.7% in 2021, and increased from 14.0% for the six months ended June 30, 2021 to 33.8% for the six months ended June 30, 2022. Our contribution margin increased over the Track Record Period primarily because we improved our efficiency in managing cost of sales and selling and marketing expenses.

SUMMARY

Summary of Consolidated Statements of Financial Position

The table below sets forth selected information from our consolidated statements of financial position as of the dates indicated.

	As of December 31,			As of
	2019	2020	2021	June 30,
				2022
	<i>(RMB in thousands)</i>			
ASSETS				
Non-current asset				
Right-of-use assets	66,451	37,814	34,074	21,530
Property and equipment	32,952	47,658	49,807	47,617
Intangible assets	3,459	19,916	395,389	475,571
Investments accounted for using the equity method	68,357	86,638	115,173	117,104
Financial assets at fair value through profit or loss	7,754	20,936	246,128	254,027
Contract assets	256	705	1,195	13,178
Long-term bank deposits	–	–	510,203	620,447
Other non-current assets	–	–	1,000	–
Total non-current assets	179,229	213,667	1,352,969	1,549,474
Current assets				
Inventories	21,009	28,186	184,499	234,965
Contract assets	1,700	1,193	4,434	20,328
Trade receivables	179,210	262,699	778,321	803,321
Prepayments and other receivables	219,205	169,980	272,002	288,047
Financial assets at fair value through profit or loss	71,900	174,408	2,535,763	1,851,429
Short-term bank deposits	–	95,602	20,000	20,000
Restricted cash	336	18,201	8,010	7,213
Cash and cash equivalents	703,786	1,052,073	1,292,686	1,420,922
Total current assets	1,197,146	1,802,342	5,095,715	4,646,225
Total assets	1,376,375	2,016,009	6,448,684	6,195,699

SUMMARY

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>(RMB in thousands)</i>			
EQUITY AND LIABILITIES				
Equity attributable to owners of the Company				
Share capital/paid-in capital	8,057	8,851	437,706	437,706
Treasury stock	(1,313,614)	(1,746,224)	(4,898,094)	(4,898,094)
Reserves	1,976,894	2,628,252	6,643,834	6,644,322
Accumulated losses	(1,319,252)	(2,068,902)	(2,534,467)	(3,101,210)
Non-controlling interests	<u>(4,618)</u>	<u>(4,976)</u>	<u>103,008</u>	<u>96,067</u>
Deficit on total equity	<u>(652,533)</u>	<u>(1,182,999)</u>	<u>(248,013)</u>	<u>(821,209)</u>
Non-current liabilities				
Lease liabilities	38,835	17,590	11,000	7,887
Deferred income tax liabilities	268	995	25,027	22,054
Borrowings	–	–	15,000	15,000
Redemption liabilities	1,528,181	2,147,031	5,822,196	6,145,742
Financial liabilities at fair value through profit or loss	18,135	–	–	–
Other non-current liabilities	<u>279,432</u>	<u>772,061</u>	<u>66,541</u>	<u>51,239</u>
Total non-current liabilities	1,864,851	2,937,677	5,939,764	6,241,922
Current liabilities				
Trade payables	15,231	84,968	321,357	291,738
Other payables and accruals	97,176	73,366	183,863	163,617
Contract liabilities	20,781	77,099	173,881	211,651
Lease liabilities	26,731	21,185	24,364	15,987
Income tax liabilities	–	–	4,926	2,331
Borrowings	–	–	3,752	37,833
Other current liabilities	<u>4,138</u>	<u>4,713</u>	<u>44,790</u>	<u>51,829</u>
Total current liabilities	<u>164,057</u>	<u>261,331</u>	<u>756,933</u>	<u>774,986</u>
Total liabilities	<u>2,028,908</u>	<u>3,199,008</u>	<u>6,696,697</u>	<u>7,016,908</u>
Net current assets	<u>1,033,089</u>	<u>1,541,011</u>	<u>4,338,782</u>	<u>3,871,239</u>
Total equity and liabilities	<u>1,376,375</u>	<u>2,016,009</u>	<u>6,448,684</u>	<u>6,195,699</u>

SUMMARY

We had net current assets of RMB1,033.1 million, RMB1,541.0 million, RMB4,338.8 million, RMB3,871.2 million and RMB3,825.6 million, respectively, as of December 31, 2019, 2020, 2021, June 30, 2022 and July 31, 2022.

Our net current assets increased from RMB1,033.1 million as of December 31, 2019 to RMB1,541.0 million as of December 31, 2020, primarily due to an increase in cash and cash equivalents from RMB703.8 million as of December 31, 2019 to RMB1,052.1 million as of December 31, 2020 as a result of our private financings in 2020, and partially offset by an increase in trade payables from RMB15.2 million as of December 31, 2019 to RMB85.0 million as of December 31, 2020 as a result of our business growth and increased bargaining power over suppliers.

Our net current assets increased from RMB1,541.0 million as of December 31, 2020 to RMB4,338.8 million as of December 31, 2021, primarily due to an increase in financial assets at fair value through profit or loss from RMB174.4 million as of December 31, 2020 to RMB2,535.8 million as of December 31, 2021 primarily as a result of our investments in wealth management products due to our equity financing activities in 2021.

Our net current assets decreased from RMB4,338.8 million as of December 31, 2021 to RMB3,871.2 million as of June 30, 2022, primarily attributable to a decrease in the combination of our cash and cash equivalents and the current portion of financial assets at fair value through profit or loss from RMB3,828.4 million to RMB3,272.4 million, mainly as a result of our utilization of cash and financial assets in operating expenditures.

Our net current assets remained relatively stable from RMB3,871.2 million as of June 30, 2022 to RMB3,825.6 million as of July 31, 2022.

Our redemption liabilities were RMB1,528.2 million, RMB2,147.0 million, RMB5,822.2 million, RMB6,145.7 million and RMB6,202.9 million, respectively, as of December 31, 2019, 2020, 2021, June 30, 2022 and July 31, 2022. Our redemption liabilities primarily relate to our obligation to repurchase our own equity instruments in connection with the redemption rights and liquidation preferences granted to our investors in certain situations. The significant increase of redemption liabilities as of December 31, 2020 to that as of December 31, 2021 was primarily in connection with our equity financing activities. We expect to turn our net liabilities position into net assets upon [REDACTED], as the carrying amount of redemption liabilities will be reclassified from financial liabilities to equity as a result of the termination of the aforesaid preferred rights.

We recorded accumulated loss of RMB1,319.3 million, RMB2,068.9 million, RMB2,534.5 million and RMB3,101.2 million as of December 31, 2019, 2020, 2021 and June 30, 2022, primarily as a result of our net loss from the preceding fiscal years.

Our net liabilities increased from RMB652.5 million as of December 31, 2019 to RMB1,183.0 million as of December 31, 2020, primarily driven by (i) an increase in the loss for the year of RMB750.2 million and (ii) an increase in the recognition of redemption liabilities of RMB432.6 million related to the aforesaid preferred rights, partially offset by an increase in the capital contribution from shareholders of RMB477.0 million as a result of our financing activities. Our net liabilities decreased from RMB1,183.0 million as of December 31, 2020 to RMB248.0 million as of December 31, 2021, primarily driven by (i) an increase in the recognition of redemption liabilities of RMB4,848.8 million related to the aforesaid preferred rights and (ii) an increase in the comprehensive loss for the year of RMB1,797.1 million, partially offset by (i) an increase in capital contribution from shareholders of RMB5,055.2 million as a result of our financing activities, and (ii) an increase in the derecognition of

SUMMARY

redemption liabilities of RMB1,812.3 million because, in May 2021, certain investors agreed to terminate the aforesaid preferred rights we granted to them. Our net liabilities increased from RMB248.0 million as of December 31, 2021 to RMB821.2 million as of June 30, 2022, primarily driven by an increase in the comprehensive loss for the period of RMB583.3 million.

For details, see “Financial Information – Discussion of Selected Items from the Consolidated Statements of Financial Position.”

Summary of Consolidated Statements of Cash Flows

	Year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
				<i>(unaudited)</i>	
				<i>(RMB in thousands)</i>	
Cash used in operating activities					
Operating cash flows before movements in working capital	(309,500)	(365,959)	(576,136)	(263,379)	(275,904)
Changes in working capital	(85,568)	(87,879)	(202,298)	(140,084)	(82,651)
Cash used in operations	(395,068)	(453,838)	(778,434)	(403,463)	(358,555)
Interest received	497	898	11,113	5,905	6,686
Income tax paid	–	–	(2,687)	–	(4,393)
Net cash used in operating activities	(394,571)	(452,940)	(770,008)	(397,558)	(356,262)
Net cash generated from/(used in) investing activities	37,513	(139,083)	(3,199,611)	(3,118,167)	490,051
Net cash generated from/(used in) financing activities	1,028,766	942,428	4,210,015	3,446,083	(5,701)
Net increase/(decrease) in cash and cash equivalents	671,708	350,405	240,396	(69,642)	128,088
Cash and cash equivalents at the beginning of the year/period	32,331	703,786	1,052,073	1,052,073	1,292,686
Effects of exchange rate changes on cash and cash equivalents	(253)	(2,118)	217	(735)	148
Cash and cash equivalents at the end of the year/period	703,786	1,052,073	1,292,686	981,696	1,420,922

SUMMARY

We have recorded net cash used in operating activities of RMB394.6 million, RMB452.9 million, RMB770.0 million, RMB397.6 million and RMB356.3 million, in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively, primarily due to the net loss recorded and increases in our trade receivables, mainly due to our business growth. For details, see “Financial Information – Liquidity and Capital Resources.”

Working Capital

We usually grant a credit term ranging from 3 to 6 months to our customers, whereas our suppliers, especially the new suppliers, usually grant us shorter credit terms. We believe that this gap will be gradually reduced considering that (i) as we scale up, we expect to have stronger bargaining power against our suppliers and are thus able to obtain more favorable credit terms, and (ii) as we built trust with our customers and gained more bargaining power as our business developed, we are able to negotiate for shorter credit terms with our customers.

Furthermore, taking into account (i) the financial resources available to us, including a total of RMB3,920.0 million liquid cash resources as of June 30, 2022 (that include cash and cash equivalents, short-term and long-term bank deposits, short-term investments measured at fair value through profit or loss, restricted cash), (ii) the portion of the estimated net [REDACTED] from the [REDACTED] expected to be used for working capital and general corporate purposes, (iii) our good track record in being able to raise money from renowned investors to finance our business, as evidenced by our historical fund-raising activities, and (iv) our plans to continue to enhance our financial performance, for details of which see “– Business Sustainability and Path to Profitability”, our Directors believe that we have sufficient working capital for our present requirements and for the next 12 months from the date of this Document.

[REDACTED]

SUMMARY

[REDACTED]

OUR SHAREHOLDING STRUCTURE

Our Controlling Shareholders

Immediately prior to the [REDACTED], Dr. Dai as our Controlling Shareholder, by himself and through his close associates, Ms. Wu, Beijing New Wisdom, Paradigm Investment, Paradigm Yinyuan, Paradigm Chuqi and Paradigm Tianqin, controlled approximately 41.18% of our total issued share capital and together, they constitute our Controlling Shareholders (as defined under the Listing Rules) before the [REDACTED]. Immediately following completion of the [REDACTED] and assuming the [REDACTED] is not exercised, Dr. Dai by himself and through his close associates, being Ms. Wu, Beijing New Wisdom, Paradigm Investment, Paradigm Yinyuan, Paradigm Chuqi and Paradigm Tianqin will control approximately [REDACTED]% of our total issued share capital and they will remain as our Controlling Shareholders upon [REDACTED].

[REDACTED] Investments

Between August 2015 to June 2021, our Company entered into several rounds of [REDACTED] financing agreements with our [REDACTED] Investors with the aggregate amount of consideration of approximately US\$1.0 billion. For further details of the identity and background of the [REDACTED] Investors, see “History, Development and Corporate Structure – [REDACTED] Investments” in this Document.

APPLICATION FOR [REDACTED] ON THE STOCK EXCHANGE

We are applying for the [REDACTED] under Rule 8.05(3) of the Listing Rules and satisfy the market capitalization/revenue test, among other things, with reference to (i) our revenue for the year ended December 31, 2021, being RMB2,018.4 million, which is significantly over HK\$500 million as required by Rule 8.05(3) of the Listing Rules; and (ii) our expected market capitalization at the time of the [REDACTED], which, based on the low end of the [REDACTED] range, exceeds HK\$[REDACTED] as required by Rule 8.05(3) of the Listing Rules.

DIVIDEND

No dividends have been paid or declared by us or our subsidiaries during each of the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022.

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After completion of the [REDACTED], our Shareholders will be entitled to receive dividends we declare. As of the Latest Practicable Date, we did not have a formal dividend policy. The Board has approved a dividend policy, which will become effective upon [REDACTED]. Under the dividend policy, we may provide our Shareholders with interim or annual dividends as the Board deems appropriate. The Board will consider, among other things, the following factors when proposing dividends and determining the amount of dividends:

- our actual and projected financial performance;
- our estimated working capital requirements, capital expenditure requirements and future business expansion plan;
- our present and future cash flow;
- other internal and external factors that may have an impact on our business operations or financial performance and position; and
- other factors that our Board deem relevant.

Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents, including (where required) the approval of our Shareholders.

PRC laws require that dividends be paid only out of our distributable profits. Distributable profit is our profit as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. We do not expect such difference between distributable profits calculated under PRC GAAP and IFRS, or other differences between PRC GAAP and IFRS to have a material impact on our financial performance. As a result, we may not have sufficient or any distributable profits to make dividend distributions to our Shareholders, even if we become profitable. Any distributable profits not distributed in a given year are retained and available for distribution in subsequent years. Our dividend distribution may also be restricted if we incur debt or losses or in accordance with any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries may enter into in the future.

FUTURE PLANS AND USE OF [REDACTED]

The aggregate net [REDACTED] that we expect to receive from the [REDACTED] (after deducting [REDACTED] fees and estimated expenses in connection with the [REDACTED] and assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the indicative range of the [REDACTED] of HK\$[REDACTED] to HK\$[REDACTED] per Share) will be approximately HK\$[REDACTED]. We will bear the [REDACTED], SFC transaction levy and Stock Exchange trading fee payable by us in connection with the issue of new Shares together with any applicable fees relating to the [REDACTED]. We intend to use the net [REDACTED] we will receive from this [REDACTED] for the following purposes:

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- Approximately [REDACTED]%, or HK\$[REDACTED], will be allocated over the next three years to enhance our fundamental research, technological capabilities and solution development.
- Approximately [REDACTED]%, or HK\$[REDACTED], will be allocated over the next three years to expand our offerings, build our brand and enter into new industry sectors.
- Approximately [REDACTED]%, or HK\$[REDACTED], will be allocated over the next three years to pursue strategic investment and acquisition opportunities to implement our long-term growth strategy to develop our solutions and expand and penetrate the industry verticals we cover.
- Approximately [REDACTED]%, or HK\$[REDACTED], will be used for general corporate purposes.

[REDACTED] EXPENSES

Based on the mid-point [REDACTED] of HK\$[REDACTED] (being the mid-point of our [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED] per [REDACTED]), the total [REDACTED] expenses (including [REDACTED]) payable by our Company are estimated to be approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]), accounting for [REDACTED]% of our gross [REDACTED], assuming the [REDACTED] is not exercised. These [REDACTED] expenses mainly include [REDACTED] and [REDACTED] and professional fees paid to legal, accounting and other advisors, for their services rendered in relation to the [REDACTED] and the [REDACTED], comprising of (i) HK\$[REDACTED] of [REDACTED] expenses (including but not limited to commissions and fees); and (ii) HK\$[REDACTED] of [REDACTED] expenses, including HK\$[REDACTED] of fees and expenses of legal advisors and accountants and HK\$[REDACTED] of other fees and expenses.

As of June 30, 2022, we had incurred RMB[REDACTED] of [REDACTED] expenses for the [REDACTED], among which RMB[REDACTED] was charged to our consolidated statement of comprehensive income. We estimate that an additional [REDACTED] expenses of RMB[REDACTED] assuming the [REDACTED] is not exercised will be further incurred by our Group. In aggregate, we expect to incur RMB[REDACTED] for the [REDACTED], among which RMB[REDACTED] is expected to be charged to our consolidated statement of comprehensive income and RMB[REDACTED] is directly attributable to the issue of Shares and expected to be charged against equity upon the [REDACTED].

RECENT DEVELOPMENT

Save as otherwise disclosed below, our Directors confirm that, as of the date of this Document, there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since June 30, 2022, the end of the period reported on in the Accountant’s Report included in Appendix I to this Document.

SUMMARY

Impact of COVID-19

Since the end of December 2019, the outbreak of a novel strain of coronavirus, or COVID-19, has materially and adversely affected the Chinese and global economy.

In response to COVID-19, including the recurrence of COVID-19 in China and across the world, governments across the globe have imposed prolonged lockdowns, mandatory quarantines, closures of workplaces and facilities, travel restrictions and other related measures. The pandemic has caused temporary disruption to our solutions to the extent that necessary on-site meetings, deployment and technical support had to be delayed or cancelled, which has had a negative impact on our results of operations in 2020 and 2021. Due to the increased reported COVID-19 cases in China since March 2022, local governments in some cities have implemented a series of precautionary and control measures. Such recurrence of COVID-19 outbreak and the partial lock-down in some cities, such as Beijing and Shanghai, further created uncertainties to our businesses, especially in terms of on-site meetings, deployment and technical support. As of the Latest Practicable Date, we were not aware of any material adverse impacts on our business operations. We will continue to pay close attention to the development of COVID-19 pandemic and dedicate resources to take actions to minimize any adverse impact on our business operations.

Despite temporary disruption caused by COVID-19, we have been able to sustain our strong growth momentum, delivering robust revenue growth in the 2021 and the first half of 2022. Our revenue increased by 114.2% from RMB942.2 million in 2020 to RMB2,018.4 million in 2021, as a result of the increasing demand for our AI solutions and our continuous value creation for end users. Our revenue increased by 34.3% from RMB788.2 million for the six months ended June 30, 2021 to RMB1,058.2 million for the six months ended June 30, 2022. Business decision makers are increasingly aware of the value of high quality AI solutions not only in dealing with pressing workforce issues during the pandemic, but also in empowering organizations and optimizing daily operations.

There remains significant uncertainties associated with COVID-19, and the full extent to which the COVID-19 pandemic will directly or indirectly impact our business, results of operations, cash flows and financial condition will depend on future developments that are highly uncertain and cannot be accurately predicted. See “Financial Information – Impact of COVID-19” and “Risk Factors – Risks Related to Our Business and Industry – The COVID-19 pandemic presents challenges to our business and the effects of the pandemic could adversely affect our business, financial condition and results of operations.”

Regulatory Update

Cybersecurity and Data Privacy

On June 10, 2021, the Standing Committee of the National People’s Congress of China promulgated the PRC Data Security Law, which has become effective on September 1, 2021. The PRC Data Security Law provides for data security obligations on entities and individuals carrying out data processing activities, introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, as well as the degree of harm it will cause to national security, public interests or legitimate rights and

SUMMARY

interests of individuals or organizations when such data is tampered with, destroyed, leaked, or illegally acquired or used, and provides for a national security review procedure for those data processing activities which may affect national security and imposes export restrictions on certain data and information.

On November 14, 2021, the Cyberspace Administration of China (the “CAC”) released the Network Data Security Management Regulations (Draft for Comment) (the “Draft Regulations”) (《網絡數據安全管理條例(徵求意見稿)》).

Based on the literal interpretation of the Draft Regulations, our PRC Legal Advisers are of the view that, if the Draft Regulations remains in its current form after its promulgation, it may be unlikely that we would be required to undergo a cybersecurity review for the proposed [REDACTED].

Up to the Latest Practicable Date, we had not been notified by any authorities of being classified as a data processor carrying out data processing activities that influence or may influence national security, neither had we been subject to any cybersecurity review, enquiry, investigation or notice by the CAC or any other authorities in connection with the proposed [REDACTED]. We and our PRC Legal Advisor are of the view that, assuming the Draft Regulations become effective in their current forms, they will not have a material adverse impact on our business, results of operations, or the proposed [REDACTED]. There can be no assurance that the relevant authorities will not take a view that is contrary to or otherwise different from that of our PRC Legal Advisor above, and it is also possible that the PRC government authorities may require us to apply for the cybersecurity review for other reasons. In light of the above uncertainties, as of the Latest Practicable Date, we had not applied for such cybersecurity review. We will closely monitor the rule-making process and will assess and determine whether we are required to apply for the cybersecurity review when and once the Draft Regulations is formally promulgated.

For details, see “Regulatory Overview – Regulations Relating to Internet Information Security and Privacy Protection.”

On December 24, 2021, the CSRC published the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)》), and Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《境內企業境外發行證券和上市備案管理辦法(徵求意見稿)》), or, collectively, the Draft Overseas Listing Regulations, which set out the new regulatory requirements and filing procedures for Chinese companies seeking direct or indirect listing in overseas markets.

As advised by our PRC Legal Advisor, the Draft Overseas Listing Regulations were released only for soliciting public comment at this stage and their provisions and anticipated adoption or effective date are subject to changes, and thus their interpretation and implementation remain substantially uncertain.

SUMMARY

Notwithstanding the foregoing, we have obtained the Reply Approval in Respect of Beijing Fourth Paradigm Technology Co., Ltd. [REDACTED] of [REDACTED] Foreign Shares (Zhengjianxuke [2021] No. 3587) (《關於核准北京第四範式智能技術股份有限公司[REDACTED]境外[REDACTED]外資股的批覆》(證監許可[2021]3587號)) by the CSRC in respect of the proposed [REDACTED] on November 10, 2021.

We are also proactively following up changes in laws and regulatory development and will carry out relevant work to ensure compliance with laws and regulations with the aid of external counsels.

For details, see “Regulatory Overview – Regulations on Overseas Listing.”

No Material Adverse Change

We expect to record substantial amount of net losses for the year ending December 31, 2022, which is primarily due to our continued investments in research and development of our technologies and solutions, marketing initiatives, share-based compensation as well as estimated interest expense from redemption liabilities. In addition, we expect to record substantial amount of cash used in operations for the year ending December 31, 2022, primarily due to the significant amount of estimated loss before income tax. Furthermore, in early 2022, COVID-19 variant outbreaks and stricter social distancing measures in some major cities in mainland China may cause temporary disruption to our solutions to the extent that necessary on-site meetings, deployment and technical support had to be delayed or cancelled, and potentially increase the related staff expense, which may in turn had a negative impact on our results of operations.

Our Directors confirm that, as of the date of this Document, there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since June 30, 2022, the end of the period reported on in the Accountant’s Report included in Appendix I to this Document.

DEFINITIONS

In this Document, unless the context otherwise requires, the following terms and expressions have the meanings set forth below. Certain other terms are explained in the section headed “Glossary of Technical Terms” in this Document.

“4Paradigm Beijing”	Fourth Paradigm (Beijing) Data & Technology Co., Ltd.* (第四範式(北京)技術有限公司), a limited liability company established in the PRC on May 12, 2015, formerly known as 北京物思創想科技有限公司 and a wholly-owned subsidiary of our Company
“4Paradigm Digital Technology”	Fourth Paradigm (Beijing) Digital Technology Co., Ltd. (第四範式(北京)數字科技有限公司), a limited liability company established in the PRC on June 10, 2022 and an indirect wholly-owned subsidiary of our Company
“4Paradigm HK”	Fourth Paradigm International Limited, a limited liability company established in Hong Kong on June 1, 2018 and an indirect wholly-owned subsidiary of our Company
“4Paradigm Shenzhen”	Fourth Paradigm (Shenzhen) Data & Technology Co., Ltd.* (第四範式(深圳)技術有限公司), a limited liability company established in the PRC on March 11, 2019 and a direct wholly-owned subsidiary of our Company
“4Paradigm Singapore”	Fourth Paradigm Southeast Asia Pte. Ltd., a limited liability company established in Singapore on July 11, 2018 and an indirect wholly-owned subsidiary of our Company
“4Paradigm Technology”	Beijing Fourth Paradigm Science & Technology Co., Ltd.* (北京第四範式科技有限公司), a limited liability company established in the PRC on September 29, 2016 and a wholly-owned subsidiary of our Company
“affiliate”	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“AIC”	Administration of Industry & Commerce* (工商行政管理機關) of the PRC (now known as the Administration for Market Regulation* (市場監督管理局)) or, where the context so requires, the State Administration for Industry & Commerce of the PRC (中華人民共和國工商行政管理總局) or its delegated authority at the provincial, municipal or other local level

DEFINITIONS

“Articles of Association” or “Articles”	the articles of association of our Company, as amended, which shall become effective on the [REDACTED], a summary of which is set out in Appendix V to this Document
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Beijing Fourth Paradigm Technology”	Beijing Fourth Paradigm Technology Co., Ltd.* (北京第四範式智能技術有限公司), the predecessor of our Company established in the PRC on September 17, 2014 and formerly known as Shenzhen City Qianhai 4Paradigm Information Technology Co., Ltd.* (深圳市前海第四範式數據技術有限公司) before April 21, 2021
“Beijing Innovation”	Beijing Innovation Works VC Center (Limited Partnership)* (北京創新工場創業投資中心(有限合夥)), a limited partnership established in the PRC on May 22, 2015, one of our [REDACTED] Investors
“Beijing New Power”	Beijing New Power Quality Enterprise Development Fund (Limited Partnership)* (北京新動力優質企業發展基金(有限合夥)), a limited partnership established in the PRC on November 8, 2018, one of our [REDACTED] Investors
“Beijing New Wisdom”	Beijing New Wisdom Pilot Management Consulting Co., Ltd. (北京新智領航管理諮詢有限公司), a limited liability company established in the PRC on April 9, 2020, being the sole general partner of our Employment Incentive Platform and owned as to 99.0% by Dr. Dai and 1.0% by Ms. Wu, respectively, and one of our Controlling Shareholders
“Beijing Yuntian”	Beijing Yuntian Xinrui Technology Co., Ltd. (北京雲天新瑞科技有限公司), a limited liability company established in the PRC on September 27, 2019 and an indirect wholly-owned subsidiary of our Company
“Board” or “Board of Directors”	the board of Directors

DEFINITIONS

“Boyu Jingtai”	Boyu Jingtai (Shanghai) Equity Investment Partnership (Limited Partnership)* (博裕景泰(上海)股權投資合夥企業(有限合夥)), a limited partnership established in the PRC on December 28, 2016, one of our [REDACTED] Investors
“Business Day”	a day on which banks in Hong Kong are generally open for normal business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“CAGR”	compound annual growth rate [REDACTED]
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant

[REDACTED]

DEFINITIONS

“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Operational Procedures”	the Operational Procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to operations and functions of CCASS, as from time to time in force
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CDBC Manufacturing Fund”	CDBC Manufacturing Transformation and Upgrading Fund (Limited Partnership) (國開製造業轉型升級基金(有限合夥)), a limited partnership established in the PRC on May 26, 2020, one of our [REDACTED] Investors
“CEO”	the chief executive officer of our Company
“Chance Talent”	Chance Talent Management Limited, a limited liability company established in the British Virgin Islands on July 4, 2007, one of our [REDACTED] Investors
“Changchun Ideal”	Changchun Ideal Technology Information Co., Ltd.* (長春理想科技信息有限公司), a limited liability company established in the PRC on August 3, 2022, an indirect subsidiary of our Company
“China” or “PRC”	the People’s Republic of China which, for the purpose of this Document and for geographical reference only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“China-UAE Investment”	China-UAE Investment Cooperation (HK 1) Company Limited, a limited liability company established in Hong Kong on November 27, 2020, one of our [REDACTED] Investors
“CIC”	China Insights Industry Consultancy Limited, an independent professional market research and consulting company
“Cisco China”	Cisco China Company Limited* (思科(中國)有限公司), a limited liability company established in the PRC on August 22, 2013, one of our [REDACTED] Investors

DEFINITIONS

“CITIC Construction Investment”	CITIC Construction Investment Co., Ltd. (中信建投投資有限公司), a limited liability company established in the PRC on November 27, 2017, one of our [REDACTED] Investors
“CITIC Securities Investment”	CITIC Securities Investment Limited (中信証券投資有限公司), a limited liability company established in the PRC on April 1, 2012, one of our [REDACTED] Investors
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company,” “our Company” or “the Company”	Beijing Fourth Paradigm Technology Co., Ltd. (北京第四範式智能技術股份有限公司), a limited liability company incorporated in the PRC on September 17, 2014 and converted into a joint stock limited liability company incorporated in the PRC on July 9, 2021, whose predecessor was Beijing Fourth Paradigm Technology (北京第四範式智能技術有限公司)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“connected transaction(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and unless the context otherwise requires, refers to Dr. Dai, Ms. Wu, Beijing New Wisdom, Paradigm Investment, Paradigm Yinyuan, Paradigm Chuqi and Paradigm Tianqin. See the section headed “Relationship with our Controlling Shareholders” in this Document
“Corporate Governance Code”	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
“CSDC”	China Securities Depository and Clearing Corporation Limited (中國證券登記結算有限責任公司)

DEFINITIONS

“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)” or “our Director(s)”	the director(s) of our Company
“Domestic Share(s)”	ordinary share(s) issued by our Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in Renminbi
“Dongkong Jinlong”	Foshan City South Sea Dongkong Jinlong Investment Partnership (Limited Partnership) (佛山市南海東控錦龍投資合夥企業(有限合夥)), a limited partnership established in the PRC on November 8, 2018, one of our [REDACTED] Investors
“Dr. Dai”	Dr. Dai Wenyuan (戴文淵), the chairman of the Board, an executive Director, chief executive officer and one of our Controlling Shareholders
“EIT”	enterprise income tax
“EIT Law”	Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法)
“Employee Incentive Platform”	Paradigm Investment, the beneficial interests of which are offered to certain key employees of our Company pursuant to the Employee Incentive Scheme, and it is one of our Controlling Shareholders
“Employee Incentive Scheme”	the employee incentive scheme of our Company approved and adopted by our Board on April 25, 2021, a summary of the principal terms of which is set forth in “Statutory and General Information – Further information about our Directors, Supervisors, Senior Management and Substantial Shareholders – 5. Employee Incentive Scheme” in Appendix VI to this Document
“EpicHust”	EpicHust Technology (Wuhan) Co., Ltd.* (艾普工華科技(武漢)有限公司), a limited liability company established in the PRC on March 7, 2012 and owned as to 79.66% by our Company
“EUR”	Euro, the lawful currency of the member states of the European Union

DEFINITIONS

“Exchange Participant”	a person (a) who, in accordance with the Rules of the Hong Kong Stock Exchange, may trade on or through the Hong Kong Stock Exchange; and (b) whose name is entered in a list, register or roll kept by the Hong Kong Stock Exchange as a person who may trade on or through the Hong Kong Stock Exchange
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the government of Hong Kong
“Fangyuan Chuangying”	Ningbo Meishan Bonded Port Area Fangyuan Chuangying Equity Investment Partnership (Limited Partnership) (寧波梅山保稅港區方源創盈股權投資合夥企業(有限合夥)), a limited partnership established in the PRC on July 11, 2017, one of our [REDACTED] Investors
“Future Paradigm”	Beijing Future Paradigm Technology Co., Ltd. (北京未來範式科技有限公司), a limited liability company established in the PRC on May 28, 2018 and owned as to 60% by our Company

[REDACTED]

“Group,” “our Group,” “we” or “us”	our Company and our subsidiaries (or our Company and any one or more of our subsidiaries, as the context may require)
“Growing Fame”	Growing Fame Holdings Limited, a limited liability company established in the British Virgin Islands, one of our [REDACTED] Investors
“GS Asia II”	Goldman Sachs Asia Strategic II Pte. Ltd., a limited liability company established in the Singapore, one of our [REDACTED] Investors

DEFINITIONS

“Guangkong Zhongying”	Zhuhai Guangkong Zhongying Industry Investment Fund Partnership (Limited Partnership) (珠海光控眾盈產業投資基金合夥企業(有限合夥)), a limited partnership established in the PRC on August 30, 2016, one of our [REDACTED] Investors
“Guangzhou Jianxin”	Guangzhou Jianxin Technology Co., Ltd.* (廣州健新科技有限責任公司), previously known as Guangzhou Jianxin Automation Technology Co., Ltd.* (廣州健新自動化科技有限公司), a limited liability company established in the PRC on April 6, 2005 and owned as to 66% by our Company
“Guoxin Qidi”	Henan Guoxin Qidi Equity Investment Fund (Limited Partnership) (河南國新啟迪股權投資基金(有限合夥)), a limited partnership established in the PRC on August 2, 2017, one of our [REDACTED] Investors [REDACTED]
“H Share(s)”	overseas [REDACTED] foreign share(s) in the share capital of our Company with a nominal value of RMB1.00 each, which is/are to be [REDACTED] for and [REDACTED] in HK dollars and to be [REDACTED] on the Hong Kong Stock Exchange
“Hainan BOCOM”	Hainan BOCOM International Science and Technology Innovation Shengxing Equity Investment Partnership (Limited Partnership) (海南交銀國際科創盛興股權投資合夥企業(有限合夥)), a limited partnership established in the PRC on August 31, 2020, one of our [REDACTED] Investors
“Hainan Yuanfengshang”	Hainan Yuanfengshang Technology Partnership (Limited Partnership) (海南元風尚科技合夥企業(有限合夥)), a limited partnership established in the PRC on July 6, 2021, one of our [REDACTED] Investors
“Haitong International Investment”	Haitong International Investment Holdings Limited, a limited liability company established in the British Virgin Islands, one of our [REDACTED] Investors

DEFINITIONS

“Hangzhou Fantong” Hangzhou Fantong Equity Investment Partnership (Limited Partnership) (杭州範同股權投資合夥企業(有限合夥)), a limited partnership established in the PRC on December 7, 2020, one of our [REDACTED] Investors

“Hefei Shanyue” Hefei Shanyue Intelligence Technology Co., Ltd. (合肥山月智能科技有限公司), a limited liability company established in the PRC on March 4, 2022 and owned as to 51% by our Company

[REDACTED]

“HKSCC” Hong Kong Securities Clearing Company Limited, a wholly- owned subsidiary of Hong Kong Exchanges and Clearing Limited

“HKSCC Nominees” HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC

“Hong Kong” or “HK” the Hong Kong Special Administrative Region of the PRC

“Hong Kong dollars” or “HK dollars” or “HK\$” Hong Kong dollars, the lawful currency of Hong Kong

[REDACTED]

DEFINITIONS

[REDACTED]

“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited

[REDACTED]

“Hubei Boheng”	Hubei Boheng Equity Investment Partnership (Limited Partnership) (湖北渤恒股權投資合夥企業(有限合夥)), a limited partnership established in the PRC on August 17, 2017, one of our [REDACTED] Investors

“Ideal Technology”	Beijing Ideal Information Technology Co., Ltd.* (北京理想信息科技有限公司), a limited liability company established in the PRC on April 17, 2000, formerly known as 長春理想科技信息有限公司 and indirectly owned as to 54.44% by our Company

“IFRS”	the International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by IASB and the International Accounting Standards (IAS) and interpretations issued by the International Accounting Standards Committee (IASC)

DEFINITIONS

“Independent Third Party(ies)” any entity(ies) or person(s) who is not a connected person of our Company within the meaning of the Hong Kong Listing Rules

[REDACTED]

DEFINITIONS

“Jiangsu Jiequan”	China Life (Jiangsu) Jiequan Health Industry Investment Fund (Limited Partnership) (江蘇國壽遑泉股權投資中心(有限合夥)), a limited partnership established in the PRC on December 27, 2019, one of our [REDACTED] Investors
“Jiaxing Chenyue”	Jiaxing Jianxin Chenyue Equity Investment Partnership (Limited Partnership) (嘉興建信宸玥股權投資合夥企業(有限合夥)), a limited partnership established in the PRC on August 18, 2020, one of our [REDACTED] Investors
“JIC Tech-Inv”	JIC Technology Investment Ltd. (建投華科投資股份有限公司), a joint stock limited company established in the PRC on March 1, 1995, one of our [REDACTED] Investors
“Jinshi Haofeng”	Jinshi Haofeng Equity Investment (Hangzhou) Partnership (Limited Partnership) (金石灝豐股權投資(杭州)合夥企業(有限合夥)), a limited partnership established in the PRC on October 31, 2016, one of our [REDACTED] Investors
“Jinshi Jinrui”	Jinshi Jinrui Equity Investment (Hangzhou) Partnership (Limited Partnership) (金石金汭股權投資(杭州)合夥企業(有限合夥)), a limited partnership established in the PRC on February 20, 2017, one of our [REDACTED] Investors
“Jinshi Zhiyu”	Jinshi Zhiyu Equity Investment (Hangzhou) Partnership (Limited Partnership) (金石智娛股權投資(杭州)合夥企業(有限合夥)), a limited partnership established in the PRC on October 31, 2016, one of our [REDACTED] Investors

[REDACTED]

DEFINITIONS

“Joint Sponsors”	the joint sponsors as named in the section headed “Directors, Supervisors and parties involved in the [REDACTED]” in this Document
“Laike Paradigm”	Shanghai Laike Paradigm Technology Co., Ltd. (上海來科範式科技有限公司), a limited liability company established in the PRC on July 19, 2021, and owned as to 40% by our Company
“Latest Practicable Date”	September 4, 2022, being the latest practicable date for the purpose of ascertaining certain information contained in this Document prior to its publication
“LF Beta”	LF Beta Limited, a limited liability company established in Hong Kong on October 23, 2017, one of our [REDACTED] Investors
“Lianxiang Yangtze River”	Hubei Province Lianxiang Yangtze River Technology Industry Fund Partnership (Limited Partnership) (湖北省聯想長江科技產業基金合夥企業(有限合夥)), a limited partnership established in the PRC on May 16, 2018, one of our [REDACTED] Investors
	[REDACTED]
“Listing Committee”	the Listing Committee of the Hong Kong Stock Exchange
	[REDACTED]
“Listing Rules” or “Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Lucent Shanghai”	Lucent (Shanghai) Investment Center (Limited Partnership) (磐信(上海)投資中心(有限合夥)), a limited partnership established in the PRC on March 24, 2016, one of our [REDACTED] Investors

DEFINITIONS

“Main Board”	the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with Growth Enterprise Market of the Hong Kong Stock Exchange
“Major Awesome”	Major Awesome Limited, a limited liability company established in Hong Kong on May 10, 2021, one of our [REDACTED] Investors
“Mandatory Provisions”	Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款), as amended, supplemented or otherwise modified from time to time, for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas (including Hong Kong), which were promulgated by the former Securities Commission of the State Council and the former State Commission for Restructuring the Economic Systems on September 29, 1994
“MIC Capital”	MIC Capital Management 23 RSC Ltd, a limited liability company established in the United Arab Emirates, one of our [REDACTED] Investors
“MIIT”	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“Ministry of Finance” or “MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“Ms. Wu”	Ms. Wu Ming (吳茗), the spouse of Dr. Dai, one of our Controlling Shareholders
“NDRC”	National Development and Reform Commission of the PRC* (中華人民共和國國家發展和改革委員會)
“NIFA No. 1”	Beijing NIFA No. 1 Artificial Intelligence Technology Industry Fund Management Center (Limited Partnership) (北京中互金一號人工智能科技產業基金管理中心(有限合夥)), a limited partnership established in the PRC on April 28, 2019, one of our [REDACTED] Investors

DEFINITIONS

“Ningbo Huiyuan”	Ningbo Huiyuan Venture Capital Partnership (Limited Partnership) (寧波匯原創業投資合夥企業(有限合夥)), a limited partnership established in the PRC on February 2, 2018, one of our [REDACTED] Investors
“Nomination Committee”	the nomination committee of the Board
“Nongwan Investment”	Nongwan (Changsha) Equity Investment Enterprise (Limited Partnership) (農灣(長沙)股權投資企業(有限合夥)), a limited partnership established in the PRC on January 17, 2017, one of our [REDACTED] Investors

[REDACTED]

DEFINITIONS

“Paradigm Chuqi”	Tianjin Paradigm Chuqi Management Consulting Partnership (Limited Partnership) (天津範式出奇管理諮詢合夥企業(有限合夥)), a limited partnership established in the PRC on April 21, 2021 of which Beijing New Wisdom is the sole general partner, and it is one of our Controlling Shareholders which is interested in more than one third of limited partnership interest in Paradigm Investment
“Paradigm Digital Software Technology”	Shanghai Paradigm Digital Software Technology Co. Ltd. (上海範式數科軟件技術有限公司), a limited liability company established in the PRC on July 19, 2022 and an indirect wholly-owned subsidiary of our Company
“Paradigm Investment”	Paradigm (Tianjin) Management Consulting Partnership (Limited Partnership) (範式(天津)管理諮詢合夥企業(有限合夥)), previously known as Paradigm (Ningbo Free Trade Zone) Investment Partnership (Limited Partnership) (範式(寧波保稅區)投資合夥企業(有限合夥)), a limited partnership established in the PRC on March 29, 2018 of which Beijing New Wisdom is the sole general partner, and it is the Employment Incentive Platform and one of our Controlling Shareholders
“Paradigm Rongtong”	Paradigm Rongtong (Beijing) Technology Co., Ltd. (範式融通(北京)科技有限公司), a limited liability company established in the PRC on February 6, 2018 and owned as to 55% by our Company
“Paradigm Telian”	Paradigm Telian (Beijing) Technology Co., Ltd. (範式特聯(北京)科技有限公司), a limited liability company established in the PRC on December 12, 2018 and owned as to 51% by our Company
“Paradigm Tianqin”	Tianjin Paradigm Tianqin Management Consulting Partnership (Limited Partnership) (天津範式天琴管理諮詢合夥企業(有限合夥)), a limited partnership established in the PRC on April 21, 2021 of which Beijing New Wisdom is the sole general partner, and it is one of our Controlling Shareholders which is interested in more than one third of limited partnership interest in Paradigm Yinyuan
“Paradigm Yinyuan”	Tianjin Paradigm Yinyuan Management Consulting Partnership (Limited Partnership) (天津範式隱元管理諮詢合夥企業(有限合夥)), a limited partnership established in the PRC on April 21, 2021 of which Beijing New Wisdom is the sole general partner, and one of our Controlling Shareholders

DEFINITIONS

“PBOC”	People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC Company Law”	Company Law of the People’s Republic of China (中華人民共和國公司法)
“PRC GAAP”	generally accepted accounting principles in the PRC
“PRC Government” or “State”	the central government of the PRC, including all governmental subdivisions (including principal, municipal and other regional or local government entities) and instrumentalities
“PRC Legal Advisor”	JunHe LLP, our legal advisor as to PRC laws
“[REDACTED] Investment(s)”	the investment(s) in our Company undertaken by the [REDACTED] Investors pursuant to the respective equity transfer agreement(s) and capital increase agreement(s), details of which are set out in the section headed “History, Development and Corporate Structure” in this Document
“[REDACTED] Investor(s)”	the investor(s) from whom our Company obtained several rounds of investments, details of which are set out in the section headed “History, Development and Corporate Structure” in this Document

[REDACTED]

DEFINITIONS

“Province”	each being a province or, where the context requires, a provincial-level autonomous region or municipality under the direct supervision of the central government of the PRC
“Purui Tianjin”	Purui Enterprise Management (Tianjin) Partnership (Limited Partnership) (樸瑞企業管理(天津)合夥企業(有限合夥)), a limited partnership established in the PRC on February 4, 2021, one of our [REDACTED] Investors
“Qiushi Xingde”	Qiushi Xingde (Tianjin) Investment Center (Limited Partnership) (秋實興德(天津)投資中心(有限合夥)), a limited partnership established in the PRC on April 11, 2016, one of our [REDACTED] Investors
“Qualified Institutional Buyer” or “QIB”	a qualified institutional buyer within the meaning of Rule 144A under the U.S. Securities Act
“Regulation S”	Regulation S under the U.S. Securities Act
“Remuneration Committee”	the remuneration committee of the Board
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Ruihui Haina”	Beijing Ruihui Haina Technology Industry Fund (Limited Partnership) (北京睿匯海納科技產業基金(有限合夥)), a limited partnership established in the PRC on August 28, 2017, one of our [REDACTED] Investors
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	State Administration of Foreign Exchange of the PRC (中國國家外匯管理局)
“SAT”	State Administration of Taxation of the PRC (國家稅務總局)
“Securities and Futures Ordinance” or “SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Sequoia Capital China”	a reference to the Sequoia funds and entities that are engaged in activities related to investing and are principally focused on companies located in, or with connections to, the PRC
“Sequoia Capital China Venture”	SCC Venture V-Mars (HK) Limited, a limited liability company established in Hong Kong on December 8, 2014, one of our [REDACTED] Investors and is indirectly wholly controlled by Mr. Neil Nanpeng Shen, our former Director
“Sequoia Hanchen”	Shenzhen Sequoia Hanchen Equity Investment Partnership (Limited Partnership) (深圳市紅杉瀚辰股權投資合夥企業(有限合夥)), a limited partnership established in the PRC on September 29, 2019, one of our [REDACTED] Investors
“Sequoia Mingde”	Beijing Sequoia Mingde Equity Investment Center (Limited Partnership) (北京紅杉銘德股權投資中心(有限合夥)), a limited partnership established in the PRC on June 17, 2015, one of our [REDACTED] Investors
“Sequoia Zhisheng”	Ningbo Meishan Bonded Zone Sequoia Zhisheng Equity Investment Partnership (Limited Partnership) (寧波梅山保稅港區紅杉智盛股權投資合夥企業(有限合夥)), a limited partnership established in the PRC on August 9, 2017, one of our [REDACTED] Investors
“SFC”	Securities and Futures Commission of Hong Kong
“SGD”	Singapore dollars, the lawful currency of Singapore
“Shanghai-Hong Kong Stock Connect”	a securities trading and clearing links program developed by the Hong Kong Stock Exchange, Shanghai Stock Exchange, HKSCC and CSDC for the establishment of mutual market access between Hong Kong and Shanghai, including Southbound Trading and Northbound Trading
“Shanghai Shishuo”	Shanghai Shishuo Intelligent Technology Co., Ltd. (上海式說智能科技有限公司), a limited liability company established in the PRC on April 1, 2017 and a wholly-owned subsidiary of our Company

DEFINITIONS

“Shanghai Yisahai”	Shanghai Yisahai Technology Co., Ltd.* (上海伊颯海科技有限公司), a limited liability company established in the PRC on June 9, 2021 and an indirect wholly-owned subsidiary of our Company
“Share(s)”	ordinary share(s) in the capital of our Company with a nominal value of RMB1.00 each
“Shareholder(s)”	holder(s) of the Share(s)
“Shenzhen-Hong Kong Stock Connect”	a securities trading and clearing links program to be developed by the Hong Kong Stock Exchange, Shenzhen Stock Exchange, HKSCC and CSDC for the establishment of mutual market access between Hong Kong and Shenzhen
“Shenzhen Linghui”	Shenzhen Linghui Cornerstone Equity Investment Partnership (Limited Partnership) (深圳市領匯基石股權投資基金合夥企業(有限合夥)), a limited partnership established in the PRC on June 25, 2018, one of our [REDACTED] Investors
“Shenzhen Lingyu”	Shenzhen Lingyu Cornerstone Equity Investment Partnership (Limited Partnership) (深圳市領譽基石股權投資合夥企業(有限合夥)), a limited partnership established in the PRC on May 26, 2016, one of our [REDACTED] Investors
“Shenzhen Songhe”	Shenzhen Songhe Growth Equity Investment Partnership (Limited Partnership) (深圳市松禾成長股權投資合夥企業(有限合夥)), a limited partnership established in the PRC on March 18, 2016, one of our [REDACTED] Investors
“Sinovation Fund III”	Sinovation Fund III, L.P., a limited partnership established in the Cayman Islands on January 27, 2015, one of our [REDACTED] Investors
“Snowline Technology”	Beijing Xuexian Intelligent Technology Co., Ltd. (北京雪線智能技術有限公司), a limited liability company established in the PRC on January 18, 2019 and an indirect wholly-owned subsidiary of our Company

DEFINITIONS

“Special Regulations” Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), promulgated by the State Council on August 4, 1994

[REDACTED]

“State Council” the State Council of the PRC (中華人民共和國國務院)

“Stonebridge 2020” Stonebridge 2020 (Singapore) Pte. Ltd., a limited liability company established in Singapore

“subsidiary(ies)” has the meaning ascribed thereto under the Listing Rules

“substantial shareholder(s)” has the meaning ascribed thereto under the Listing Rules

“Supervisor(s)” member(s) of our Supervisory Committee

“Supervisory Committee” the supervisory committee of our Company

“Takeovers Code” the Codes on Takeovers and Mergers and Share Buy-back issued by the SFC, as amended, supplemented or otherwise modified from time to time

“Tibet Lingfeng” Tibet Lingfeng Xinfu Venture Investment Partnership (Limited Partnership) (西藏領風鑫服創業投資合夥企業(有限合夥)), a limited partnership established in the PRC on August 25, 2015, one of our [REDACTED] Investors

“Track Record Period” the periods comprising the three financial years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022

[REDACTED]

DEFINITIONS

“Unlisted Foreign Share(s)”	ordinary share(s) issued by our Company, with a nominal value of RMB1.00 each, which is/are subscribed for or credited as paid in a currency other than Renminbi, held by foreign investors and not listed on any stock exchange
“Unlisted Shares”	Domestic Share(s) and Unlisted Foreign Share(s)
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. dollar”, “US\$” or “USD”	United States dollar, the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended and supplemented or otherwise modified from time to time, and the rules and regulations promulgated thereunder
“Value Global”	Value Global Limited, a limited liability company incorporated in Hong Kong on June 9, 2017, one of our [REDACTED] Investors
“Xinhe No. 1”	Xinhe No. 1 (Tianjin) Technology Center (Limited Partnership) (信和一號(天津)科技中心(有限合夥)), a limited partnership established in the PRC on January 26, 2021, one of our [REDACTED] Investors
“YSC Investment I”	YSC Investment I (HK) Limited, a limited liability company established in Hong Kong on January 15, 2015, one of our [REDACTED] Investors and was owned as to 100% by YSC Investment I (BVI) Ltd.
“Zhimei Xinchuang”	Zhimei Xinchuang (Beijing) Technology Co., Ltd. (智媒新創(北京)科技有限公司), a limited liability company established in the PRC on October 27, 2020, and owned as to 35% by our Company
“Zhongyi Equity Fund”	Zhongyi Equity Fund (Hebei Xiongan) Partnership (Limited Partnership) (中移股權基金(河北雄安)合夥企業(有限合夥)), a limited partnership established in the PRC on December 27, 2019, one of our [REDACTED] Investors

DEFINITIONS

“Zhongyuan Putai”	Zhongyuan Putai (Beijing) Intelligent Technology Co., Ltd. (中元普泰(北京)智能科技有限公司), a limited liability company established in the PRC on April 14, 2021 and owned as to 51% by our Company
“Zhuhai Hongmai”	Zhuhai Hongmai Enterprise Management Partnership (General Partnership) (珠海宏邁企業管理合夥企業(普通合夥)), a general partnership established in the PRC on December 15, 2020, one of our [REDACTED] Investors
“Zhuhai Jiaxun”	Zhuhai Jiaxun Equity Investment Fund Partnership (Limited Partnership) (珠海嘉勳股權投資基金合夥企業(有限合夥)), a limited partnership established in the PRC on May 22, 2018, one of our [REDACTED] Investors
“Zhuhai Jinyiming”	Zhuhai Jinyiming Equity Investment Fund Partnership (Limited Partnership) (珠海金鎰銘股權投資基金合夥企業(有限合夥)), a limited partnership established in the PRC on March 5, 2018, one of our [REDACTED] Investors
“Zhuhai Xuren”	Zhuhai Xuren Equity Investment Fund Partnership (Limited Partnership) (珠海旭仁股權投資基金合夥企業(有限合夥)), a limited partnership established in the PRC on August 16, 2018, one of our [REDACTED] Investors

For ease of reference, the names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities (including our subsidiary) have been included in this Document in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail.

* For identification purposes only

GLOSSARY OF TECHNICAL TERMS

This glossary contains definitions of certain terms used in this Document in connection with us and our business. Some of these may not correspond to standard industry definitions.

“AAAI”	the Association for the Advancement of Artificial Intelligence
“ACL”	the Association for Computational Linguistics
“ACM”	ACM International Collegiate Programming Contest, an annual multi-tiered international competitive programming competition among different universities in the world and one of the largest and most prestigious programming contests in the world
“AGV”	automated guided vehicle, automated, custom-made vehicles that are able to transport packets, materials and/or products in logistical or production factory environment
“AI”	artificial intelligence, simulation of human intelligence by machines
“AI +”	empowering industries with AI solutions
“algorithm”	a procedure of formula for solving a problem, based on conducting a sequence of specified actions
“AutoCV”	automated computer vision, the process of automating the application of computer vision to real-world problems
“AutoML”	automated machine learning, the process of automating the end-to-end process of applying machine learning to real-world problems
“AutoRL”	automated reinforcement learning, the training of machine learning models to make a sequence of decisions in a dynamic, uncertain, potentially complex environment
“CAGR”	compound annual growth rate

GLOSSARY OF TECHNICAL TERMS

“cloud”	the computers and connections that support cloud computing
“cloud computing”	the practice of storing computer data and programs on multiple servers that can be accessed through the internet
“computing power”	the ability of a computer to perform an operation
“CV” or “computer vision”	computer vision, a field of artificial intelligence that trains computers to interpret and understand the digital images or videos
“deep learning”	a subset of AI and machine learning that mimics the working of biological neural systems such as human brains and uses multi-layered neural networks to deliver state-of-the-art accuracy in tasks such as object detection and recognition, speech recognition and natural language processing. Deep learning differs from traditional machine learning techniques in that it can automatically learn representations from data such as images, video or text, without introducing hand-coded rules or human domain knowledge. Its highly flexible architecture can learn directly from raw data and can increase its predictive accuracy when provided with some data
“derivative-free optimization”	a discipline in mathematical optimization that does not use derivative information in the classical sense to find optimal solutions.
“enterprise AI”	AI technologies and software applied by enterprises to address their business needs and drive their digital and automation transformation
“framework”	a platform for developing software applications
“GDP”	Gross Domestic Product
“GDPR”	General Data Protection Regulation, a regulation in EU law on data protection and privacy in the European Union and the European Economic Area
“GPU”	graphic processing unit, a specialized electronic circuit designed to rapidly manipulate and alter memory to accelerate the creation of images

GLOSSARY OF TECHNICAL TERMS

“heterogeneous computing”	systems that use more than one kind of processor or cores
“IaaS”	infrastructure as a service, a category of cloud computing designed to rapidly manipulate and alter memory to accelerate the creation of images
“IDE”	integrated development environment, a software application that provides comprehensive facilities to computer programmers for software development
“IT”	information technology
“KDD”	Knowledge Discovery and Data Mining
“lighthouse user”	end users of Sage Platform which are either Global Fortune 500 companies or publicly listed companies. Unless otherwise indicated, the number of lighthouse users for a given period refers to the number of lighthouse users from which we generated revenue, either directly or indirectly through solution partners, in that period
“machine learning”	the scientific study of algorithms and statistical models that computer systems use to effectively perform specific tasks without being explicitly programmed to do so
“natural language processing”	a subfield of linguistics, computer science, and artificial intelligence concerned with the interactions between computers and human language, in particular how to program computers to process and analyze large amounts of natural language data
“net dollar expansion rate”	a fraction, the denominator of which is the revenue contribution from a designated group of users in the previous year of a given year and the numerator of which is the contribution from the same group of users in such given year, expressed as a percentage. For example, when calculating net dollar expansion rate of our lighthouse users in 2021, the denominator is the revenue contribution of our lighthouse users in 2020, and the numerator is the revenue contribution of such same group of lighthouse users in 2021
“NIPS”	Neural Information Processing Systems

GLOSSARY OF TECHNICAL TERMS

“number of users”	Unless otherwise indicated, the number of users for a given period refers to the number of end users of Sage Platform from which we generated revenue, either directly or indirectly through solution partners, in that period
“OCR”	optical character recognition
“PC”	personal computer, a multi-purpose computer whose size, capabilities, and price make it feasible for individual use
“platform-centric”	a type of AI solutions that come with an AI development platform in addition to AI applications and underlying computing infrastructure
“R&D”	research and development
“ROI”	return on investment
“SKU”	stock keeping unit, a distinct type of item for sale
“supervised learning”	the machine learning task of learning a function that maps an input to an output based on example input-output pairs. It infers a function from labeled training data consisting of a set of training examples
“TCO”	total cost of ownership, the purchase price of an asset plus the costs of operation
“TensorFlow”	a free and open-source software library for machine learning
“transfer learning”	a research field in machine learning that focuses on storing knowledge gained while solving one problem and applying it to a different but related problem

FORWARD-LOOKING STATEMENTS

We have included in this Document forward-looking statements. Statements that are not historical facts, including but not limited to statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

This Document contains forward-looking statements and information relating to us and our subsidiary that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this Document, the words “aim,” “anticipate,” “believe,” “could,” “expect,” “going forward,” “intend,” “may,” “ought to,” “plan,” “project,” “seek,” “should,” “will,” “would,” “vision,” “aspire,” “target,” “schedules,” and the negative of these words and other similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the risk factors as described in this Document, some of which are beyond our control and may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing us which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

1. our operations and business prospects;
2. our ability to maintain relationship with, and the actions and developments affecting, our major customers, suppliers and subcontractors;
3. future developments, trends and conditions in the industries and markets in which we operate or plan to operate;
4. general economic, political and business conditions in the markets in which we operate;
5. changes to the regulatory environment in the industries and markets in which we operate;
6. the effects of the on-going COVID-19 crisis;
7. our ability to maintain the market leading positions;
8. the actions and developments of our competitors;
9. our ability to effectively contain costs and optimize pricing;
10. the ability of third parties to perform in accordance with contractual terms and specifications;

FORWARD-LOOKING STATEMENTS

11. our ability to retain senior management and key personnel and recruit qualified staff;
12. our business strategies and plans to achieve these strategies, including our service and geographic expansion plans;
13. our ability to defend our intellectual rights and protect confidentiality;
14. the effectiveness of our quality control systems;
15. change or volatility in interest rates, foreign exchange rates, equity prices, trading volumes, commodity prices and overall market trends; including those pertaining to the PRC and the industry and markets in which we operate; and
16. capital market developments.

By their nature, certain disclosures relating to these and other risks are only estimates and should one or more of these uncertainties or risks, among others, materialize, actual results may vary materially from those estimated, anticipated or projected, as well as from historical results. Specifically but without limitation, sales could decrease, costs could increase, capital costs could increase, capital investment could be delayed and anticipated improvements in performance might not be fully realized.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this Document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Document might not occur in the way we expect or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this Document are qualified by reference to the cautionary statements in this section as well as the risks and uncertainties discussed in the section headed “Risk Factors” in this Document.

In this Document, statements of or references to our intentions or those of our Directors are made as of the date of this Document. Any such information may change in light of future developments.

RISK FACTORS

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

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

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

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

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

AI technologies are still at a preliminary stage of development and will continue to evolve. Flaws or deficiencies in AI technologies could undermine the accuracy and thoroughness of the analysis and decisions made by our solutions. There can be no assurance that we will be able to detect and remedy such flaws or deficiencies in a timely manner, or at all. If the recommendations, forecasts or analysis that our AI solutions assist in producing are deficient or inaccurate, we could be subjected to competitive harm, potential legal liability, and ethical or reputational harm. Any flaws or deficiencies in our AI technologies and solutions, whether actual or perceived, could materially and adversely affect our business, reputation, results of operations and prospects.

RISK FACTORS

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

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

In 2019, 2020, 2021 and the six months ended June 30, 2022, we recorded net losses of RMB718.2 million, RMB750.2 million, RMB1,802.1 million and RMB583.8 million, respectively. As of December 31, 2019, 2020, 2021 and June 30, 2022, we had recorded net liabilities of RMB652.5 million, RMB1,183.0 million, RMB248.0 million and RMB821.2 million, respectively. In addition, we have recorded net cash used in operating activities of RMB394.6 million, RMB452.9 million, RMB770.0 million and RMB356.3 million in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. We believe that our future abilities to achieve profitability and generate positive operating cashflow will depend on, among other factors, our ability to develop new technologies, enhance user experience, establish effective monetization strategies, compete effectively and successfully, and continuously grow our user base and revenues in a cost-effective way by improving our operational efficiency. Moreover, our ability to obtain additional capital in the future, however, is subject to a number of uncertainties, including those relating to our future business development, financial condition and results of operations, general market conditions for financing activities by companies in our industry and macro-economic and other conditions in China and globally. If we cannot obtain sufficient capital to meet our capital needs, we may not be able to execute our growth strategies, and our business, financial condition and prospects may be materially and adversely affected. Accordingly, you should not rely on our historical results of operations as an indication of our future performance. We also expect our costs and expenses to significantly increase in future periods as we continue to expand our business and operations. In addition, we expect to incur substantial costs and expenses as a result of being a [REDACTED] company. If we are unable to generate adequate revenues and manage our costs and expenses, we may continue to incur significant losses in the future and our net losses may increase compared to prior years, and we may not be able to achieve or subsequently maintain profitability.

RISK FACTORS

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

Our future success depends heavily on continuing efforts of our senior management, many of whom are difficult to replace. In particular, we rely on the expertise, experience and vision of our senior management, as well as other members of our senior management team. We normally enter into a four-year or non-fixed term employment contract with our senior management members. If any of our senior management becomes unable or unwilling to continue to contribute their services to us, we may not be able to replace them easily, or at all. As a result, our business may be severely disrupted, and our financial condition and results of operations may be materially and adversely affected.

Additionally, our future success also depends on our ability to attract, recruit and train a large number of qualified employees and retain existing key employees. In particular, we rely on our top-notch research and development team to develop our advanced technologies and solutions, and our experienced sales personnel to maintain relationships with our customers. In order to compete for talents, we may need to offer higher compensation, better training and more attractive career opportunities and other benefits to our employees, which may be costly and burdensome. We cannot assure you that we will be able to attract or retain qualified workforce necessary to support our future growth. Furthermore, any disputes between us and our employees or any labor-related regulatory or legal proceedings may divert management and financial resources, negatively impact staff morale, reduce our productivity, or harm our reputation and future recruiting efforts. In addition, our ability to train and integrate new employees into our operations may not meet the demands of our growing business. Any of the above issues related to our workforce may materially and adversely affect our operations and future growth.

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

The industries in which we operate are characterized by constant changes, including rapid technological evolution, frequent introductions of new solutions, continual shifts in users demands and constant emergence of new industry standards and practices. Thus, our success will depend, in part, on our ability to respond to these changes in a cost-effective and timely manner. We need to constantly anticipate the emergence of new technologies and assess their market acceptance. To remain competitive, we must continue to stay abreast of the continuously evolving industry trends and rapid technological developments. We have invested and intend to continue investing significant resources in technologies to enhance our solutions. Nevertheless, we may not be able to leverage new technologies effectively or adapt our solutions to meet user needs or emerging industry standards, and our technology approach might not align with our future development plans or even become obsolete if we are unable

RISK FACTORS

to adapt in a cost-effective and timely manner to changing market conditions, whether for technical, legal, financial or other reasons. Our success will depend partially on our ability to continuously identify, develop, acquire, protect or license advanced and new technologies that are valuable to our solutions and services. Failure to do so could render our existing solutions and services obsolete and unappealing, thereby adversely affecting our business prospects.

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

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

We have achieved tremendous growth during the Track Record Period. Our total revenue increased by 105.0% from RMB459.5 million in 2019 to RMB942.2 million in 2020, and further by 114.2% to RMB2,018.4 million in 2021, and by 34.3% from RMB788.2 million for the six months ended June 30, 2021 to RMB1,058.2 million for the six months ended June 30, 2022. However, there is no assurance that we will be able to maintain our historical growth rates in future periods. Our growth rates may decline for a number of reasons, including China’s overall economic growth, the ongoing digitalization of China’s economy, technology development of the AI industry, accumulation of AI experts in China, awareness of enterprises to deploy AI applications, our investment in technology innovation and AI solutions, our ability to attract and retain our users, our ability to create value for users with our innovative enterprise AI solutions, our ability to manage our costs and enhance operating leverage. We cannot assure you that we will be able to effectively manage our growth or implement our business strategies. If the market for our solutions does not develop as we expect or if we fail to address the needs of this dynamic market, our business, results of operations and financial condition will be materially and adversely affected.

We are investing heavily in our research and development, and such investment may negatively impact our profitability in the short term and may not generate the results we expect to achieve.

Our technological capabilities and infrastructure are critical to our success. We have been investing heavily in our research and development efforts. Our research and development expenses increased from RMB416.4 million in 2019 to RMB565.7 million in 2020 and further increased to RMB1,249.5 million in 2021, representing 90.6%, 60.0% and 61.9% of our total revenues in 2019, 2020 and 2021, respectively. Our research and development expenses remained stable, being RMB578.3 million and RMB557.9 million for the six months ended June 30, 2021 and 2022, respectively, representing 73.4% and 52.7% of our total revenue during the same periods. The industries in which we operate are subject to rapid technological changes and are evolving quickly in terms of technological innovation. We need to invest significant resources, including financial resources, in research and development to lead

RISK FACTORS

technological advancement in order to make our solutions innovative and competitive in the market. As a result, we expect that our research and development expenses will continue to increase in absolute amount. We have incurred losses in the past and may not be able to achieve or subsequently maintain profitability, partially due to the significant investment in research and development. In 2019, 2020, 2021 and the six months ended June 30, 2022, we recorded losses of RMB718.2 million, RMB750.2 million, RMB1,802.1 million and RMB583.8 million, respectively. Furthermore, research and development activities are inherently uncertain, and we might encounter practical difficulties in commercializing our research and development results. Our significant expenditures on research and development may not generate corresponding benefits. Given the fast pace with which the technology has been and will continue to develop, we may not be able to timely upgrade our technologies in an cost-effective and timely manner, or at all. New technologies in our industries could render our technologies, our technological infrastructure or solutions that we are developing or expect to develop in the future obsolete or unattractive, thereby limiting our ability to recover related research and development costs, which could result in a decline in our revenues, profitability and market share.

Our solutions are primarily not offered on a recurring subscription basis. If we fail to retain existing customers, attract new customers or increase the spending by our customers, our business and results of operations may be materially and adversely affected.

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

As we have been and will continue expanding our customer base and diversifying industry verticals that we cover, we may fail to provide users with solutions that meet their specific demands, and we may fail to provide customer support to the level expected by our users. Such failures could result in user dissatisfaction, decreased overall demand for our solutions and loss of expected revenue. In addition, our inability to meet customer service expectations may damage our reputation and could consequently limit our ability to retain existing customers and attract new customers, which would materially and adversely affect our business and the results of operations.

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We may be subject to complex and evolving laws and regulations regarding privacy and data protection. Actual or alleged failure to comply with privacy and data protection laws and regulations could damage our reputation, deter current and potential users from using our solutions and subject us to significant legal, financial and operational consequences.

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

We have adopted various measures to ensure legal compliance. See “Business – Data Privacy and Security” for more information. However, the laws and regulations regarding privacy and data protection in China, as well as in other jurisdictions, are generally complex and evolving, with uncertainty as to the interpretation and application thereof. As such, we cannot assure you that our privacy and data protection measures are, and will be, always considered sufficient under applicable laws and regulations. Additionally, the effectiveness of our privacy and data protection measures is also subject to system failure, interruption, inadequacy, security breaches or cyberattacks. If we are unable to comply with the then-applicable laws and regulations, or to address any privacy and data protection concerns, such actual or alleged failure could damage our reputation, deter current and potential users from using our solutions and could subject us to significant legal, financial and operational consequences.

On June 10, 2021, the Standing Committee of the National People’s Congress of China promulgated the PRC Data Security Law, which has become effective on 1 September 2021. The PRC Data Security Law provides for data security obligations on entities and individuals carrying out data processing activities, introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, as well as the degree of harm it will cause to national security, public interests or legitimate rights and interests of individuals or organizations when such data is tampered with, destroyed, leaked, or illegally acquired or used, and provides for a national security review procedure for those data processing activities which may affect national security and imposes export restrictions on certain data and information. Furthermore, recently, certain PRC regulatory authorities issued Opinion on Severely Punishing Illegal Activities in Securities Market, which were available to the public on July 6, 2021, further emphasized to strengthen cross-border regulatory collaboration, to improve relevant laws and regulations on data security, cross-border data

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transmission, and confidential information management, and provided that efforts will be made to revise the regulations on strengthening the confidentiality and archive management relating to the offering and listing of securities abroad, to implement the responsibility on information security of companies listed in foreign countries, and to strengthen the standardized management of cross-border information provision mechanisms and procedures. However, these opinions were newly issued, and there were no further explanations or detailed rules or regulations with respect to such opinions, and there are still uncertainties regarding the interpretation and implementation of these opinions. On July 7, 2022, CAC promulgated the Measures on Data Export Security Assessment (《數據出境安全評估辦法》), which came into effect on September 1, 2022. Such Measures on Data Export Security Assessment requires data processors to apply for a security assessment on data export in one of the following scenarios:

- (1) where a data processor provides critical data abroad;
- (2) where a critical information infrastructure operator or a data processor who processes the personal information of one million or more individuals transfers such personal information abroad;
- (3) where a data processor has provided personal information of 100,000 individuals or sensitive personal information of 10,000 individuals in total abroad since January 1 of the previous year; and
- (4) other circumstances prescribed by the CAC for which declaration for security assessment for outbound data transfers is required. According to our self-assessment, up to the Latest Practicable Date, we believe neither of the above threshold applies to us, and we did not trigger the government security assessment under the Measures on Data Export Security Assessment.

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

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

These and other similar legal and regulatory developments could lead to legal and economic uncertainties, affect how we design our IT systems, how we operate our business, how we and our business partners process data, which could negatively impact demand for our solutions. We may incur substantial costs to comply with such laws and regulations, to meet the demands of our users relating to their own compliance with applicable laws and regulations and to establish and maintain internal compliance policies.

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

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

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

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

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

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

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

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

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

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

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

Our AI solutions may be integrated with a variety of hardware and software platforms and software applications, and we need to modify and enhance our AI solutions to adapt to changes in hardware and software technologies in a timely and cost-effective manner. Compatibility of

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our solutions and hardware and software developed by others is critical to the performance of our solutions. Failure to ensure compatibility of our solutions may negatively affect our competitive edge, and our business results of operations and financial condition would be harmed.

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

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

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

Leveraging our leading position in the enterprise AI solution market and our core technologies, we are able to provide innovative AI-empowered solutions to address diversified needs of our users across different verticals. We have a track record of successfully expanding into new verticals. We cannot assure you, however, that we will be able to maintain this momentum in the future. Expanding into new verticals involves new risks and challenges. Unfamiliarity with new verticals may make it more difficult for us to keep pace with evolving user demands and preferences. In addition, there may be one or more existing market leaders in any vertical that we decide to expand into. Such companies may be able to compete more effectively than us by leveraging their experience in doing business in that vertical as well as their deeper industry insight and greater brand recognition. We could be subject to additional regulatory restrictions that are relevant to these businesses. Expansion into any new vertical may place significant strain on our management and resources, and failure to expand successfully could have a material adverse effect on our business and prospects.

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

We have made investments and acquisitions in recent years in companies such as our acquisitions of Guangzhou Jianxin on March 31, 2021 and Ideal Technology on June 30, 2021. See “History, Development and Corporate Structure – Major Acquisitions and Investments.” We expect to continue to evaluate and consider a wide array of investment and acquisition

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opportunities that we believe can extend and solidify our leading market position as part of our overall business strategy. We may be engaged in discussions or negotiations with respect to one or more of these types of transactions. These transactions involve significant challenges and risks, including:

- difficulties in integrating the acquired personnel, operations, solutions and/or services into our operations;
- potential issues with technology, internal controls and financial reporting of the companies we acquire;
- disruptions of our ongoing business, distractions of the attention of our management and employees and increase of our expenses;
- loss of skilled professionals and established client relationships of the businesses we invest in or acquire;
- for investments over which we do not obtain management and operational control, lack of influence over the controlling partner or shareholder, which may prevent us from achieving our strategic goals in such investments;
- new regulatory requirements and compliance risks that we become subject to as a result of investments or acquisitions in new industries or otherwise;
- actual or alleged misconduct or noncompliance by any company we acquire or invest in (or by its affiliates) that occurred prior to our acquisition or investment, which may lead to negative publicity, government inquiry or investigations against such company or against us;
- unforeseen or hidden liabilities or costs that may adversely affect us following our acquisition of such targets;
- compliance matters including the antimonopoly and competition laws, rules and regulations of the PRC and other countries in connection with any proposed investments and acquisitions;
- the risk that any of our pending or other future proposed investments or acquisitions does not close;
- the costs of identifying and consummating investments and acquisitions;
- the use of substantial amounts of cash and potentially dilutive issuances of equity securities;

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- the occurrence of significant goodwill impairment charges and amortization expenses for other intangible assets; and
- uncertainties in achieving the expected benefits of synergies and growth opportunities in connection with these acquisitions and investments.

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

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

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

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

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

As confirmed by our PRC Legal Advisor, as of the Latest Practicable Date, we have obtained all the requisite licenses and made all the requisite filings with competent governmental authorities that are material to the operation of the business we engage in China. However, we cannot assure you that we can successfully update or renew the licenses required for our business in a timely manner or that these licenses are sufficient to conduct all of our present or future business. Considerable uncertainties exist 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 or approvals or make the necessary filings, we may be subject to various penalties, such as confiscation of the revenue

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that was generated through the affected operations, the imposition of fines and the discontinuation or restriction of our operations. Any such penalties may disrupt our business operations and materially and adversely affect our business, financial condition and results of operations.

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

In recent years, the U.S. government imposed targeted economic and trade restrictions on a number of Chinese companies and institutions that limit their access to U.S.-origin goods, software and technologies (collectively, “**Items**”), as well as items that contain a significant portion of certain U.S.-origin Items or are a direct product of certain U.S.-origin Items. While we have conducted business with some of these entities, we have no reasons to believe that we have violated the imposed restrictions because we do not export, re-export, or transfer any U.S.-origin products, technology, components or software that are subject to the Export Administration Regulations to any entities listed on the U.S. Commerce Department’s Entity List. We also believe there is limited impact resulting from such restrictions on our business. Furthermore, our transactions with these listed entities have represented a negligible portion of our results of operations.

However, U.S. export controls and trade laws and regulations are complex and likely subject to frequent changes, and the interpretation and enforcement of the relevant regulations involve substantial uncertainties, which may be driven by political and/or other factors that are not within our control or that are heightened by national security concerns. For example, the U.S. government has tightened certain chip shipments to China. If any potential restrictions, any associated inquiries or investigations, or any other government actions occur, they may be difficult or costly to comply with and may, among other things, delay or impede the development of our technology and solutions, and hinder the stability of our supply chain. They could also result in negative publicity, require significant time and attention of the management and subject us to fines, penalties or orders that we cease or modify our existing business practices, if they occur. Any of these events may have a material and adverse effect on our business, financial condition and results of operations.

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

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

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

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

We are subject to credit risk related to defaults of customers, and any significant default on our receivables could materially and adversely affect our liquidity, financial condition and results of operations.

We are exposed to credit risk related to defaults of our customers. As of December 31, 2019, 2020, 2021 and June 30, 2022, our trade receivables amounted to RMB179.2 million, RMB262.7 million, RMB778.3 million and RMB803.3 million, respectively. We may not be able to collect all such trade receivables due to a variety of factors that are beyond our control. For example, if the relationship between us and any of our customers is terminated or deteriorated, or if any of our customers experience financial difficulties in settling the trade receivables, our corresponding trade receivables recoverability might be adversely affected. As the amount of provisions made on our trade receivables are recorded as expenses on our results of operations, if we are not able to effectively manage the credit risk associated with our trade receivables, our results of operations may be materially and adversely affected. Moreover, we usually grant a credit term ranging from 3 to 6 months, whereas our suppliers, especially the new suppliers, usually grant us shorter credit terms. This mismatch in credit terms may increase our liquidity risks from time to time.

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

We have invested in associated companies and joint ventures and may continue to do so in the future. The performance of such associates and joint ventures has affected, and will continue to affect, our results of operations and financial position. Our investments in associates and joint ventures, recorded as investments accounted for using the equity method, which amounted to RMB68.4 million, RMB86.6 million, RMB115.2 million and RMB117.1 million, respectively, as of December 31, 2019, 2020, 2021 and June 30, 2022. Our investments in associates and joint ventures are subject to liquidity risk. Our investments in associates and joint ventures are not as liquid as other investment products as there is no cash flow until dividends are received even if the associates or joint ventures reported profits under the equity method of accounting. Furthermore, our ability to promptly sell one or more of our interests in our associates or joint ventures in response to changing economic, financial and investment conditions is limited. The market is affected by various factors, such as general economic conditions, availability of financing, interest rates and supply and demand, many of which are beyond our control. We cannot predict whether we will be able to sell any of our interests in the associates or joint ventures for the price or on the terms set by us, or whether any price or

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other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a purchaser and to complete the relevant transaction. Therefore, the illiquidity nature of our investment in associates and joint ventures may significantly limit our ability to respond to adverse changes in the performance of our associates. The success of an associate or a joint venture depends on a number of factors, some of which are beyond our control. As a result, we may not be able to realize the anticipated economic and other benefits from such associates and joint ventures, such as receiving dividends from them.

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

Our results of operations are affected by changes in the fair value of our financial assets. As of December 31, 2019, 2020, 2021 and June 30, 2022, our financial assets at fair value through profit or loss were RMB79.7 million, RMB195.3 million, RMB2,781.9 million and RMB2,105.5 million, respectively. In 2019, 2020, 2021 and the six months ended June 30, 2022, the amount of fair value change on financial assets at fair value through profit or loss recognized was RMB19.0 million, RMB18.4 million, RMB85.0 million and RMB39.2 million, respectively. There can be no assurance that we will recognize fair value gains from financial assets in the future. Furthermore, our financial assets include wealth management products, fund investments and unlisted equity securities, which were issued by licensed financial institutions with unguaranteed return of principal and can be redeemed on demand at our discretion. As such, we are subject to credit risk arising from such wealth management products.

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

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

As of December 31, 2019, 2020, 2021 and June 30, 2022, we had intangible assets of RMB3.5 million, RMB19.9 million, RMB395.4 million and RMB475.6 million, respectively, of which goodwill amounted to nil, nil, RMB259.7 million and RMB335.8 million, respectively. Due to the frequent changes and development in technology, the assumptions we used in estimating the cash flow generated from our intangible assets may change, and the estimated useful life of our intangible assets might also be subject to significant uncertainty. If any significant changes were to occur, we may incur impairment charges for our intangible assets, and if any significant impairment charges were made, our results of operations may be negatively affected.

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

We face inventory obsolescence, shortage or excess risks.

Our inventory mainly includes finished goods, which primarily consist of the servers of our “All-in-One” solutions, and contract fulfillment cost in relation to our deployment services. We face inventory obsolescence risks primarily with regard to the finished goods. As of December 31, 2019, 2020, 2021 and June 30, 2022, we had inventories of RMB21.0 million, RMB28.2 million, RMB184.5 million and RMB235.0 million, respectively, of which finished goods accounted for RMB2.9 million, RMB3.2 million, RMB20.6 million and RMB26.2 million, respectively. We are exposed to inventory obsolescence and inventory shortage risks as a result of a variety of factors beyond our control, including, changes of user needs and the inherent uncertainty of the success of solution launches. As a result of unforeseen or sudden events, we may experience slow movement of our inventories, fail to utilize or sell our inventories swiftly, or face the risk of inventory obsolescence, and our business, results of operations, financial condition and prospects may be adversely affected.

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

As of December 31, 2019, 2020, 2021 and June 30, 2022, we had contract liabilities of RMB20.8 million, RMB77.1 million, RMB173.9 million and RMB211.7 million, respectively. Our contract liabilities mainly arise from the advance payments made by customers while the underlying services are yet to be provided. If we cannot fulfill our obligations under these contracts, the amount of fee collecting from customers and our liquidity position may be adversely impacted.

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

As of December 31, 2019, 2020, 2021 and June 30, 2022, we recorded prepayments and other receivables of RMB219.2 million, RMB170.0 million, RMB272.0 million and RMB288.0 million, respectively. Our prepayments and other receivables primarily represent our prepayments to suppliers, deductible value-added input tax, rental, bidding and other deposits, other receivable from a third party customer, and interest receivables. We may be subject to impairment losses on prepayments and other receivables if the actual recoverability of prepayments and other receivables is lower than the expected level, which could adversely affect our cash flow and our ability to meet our working capital requirements, thereby adversely affecting our business, financial condition and results of operations.

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

Similar to many other companies in our industry, we benefit from government economic incentives. We recognized government grants of RMB5.1 million, RMB18.5 million, RMB5.2 million and RMB4.2 million as other income in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. However, the timing, amount and conditions of government economic incentives are within the sole discretion of governmental authorities. In addition, governmental authorities may require us to perform certain contractual obligations before we could receive government subsidies. However, there can be no assurance that we could fully satisfy these conditions or perform such obligations, and it is possible that such governmental authorities may stop subsidizing us. Any reduction, elimination, repayment or other negative trend in economic incentives resulting from our failure to perform such obligations could adversely affect our business, financial condition, results of operations and prospects.

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

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

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

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

RISK FACTORS

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

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

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

The use of open-source software subjects us to a number of other risks and challenges. Open-source software is subject to further development or modification by anyone. Others may develop such software to compete with us, or render such software no longer useful. It is also possible for competitors to develop their own solutions and services using open-source software, potentially reducing the demand for our solutions and services. With regard to the potential competition from open-source software developed by others, we believe our core capabilities that empower us in the competition lie in our self -developed solutions, which merely involve open-source software in certain basic service support that is not comparable to our core technologies. Therefore, we manage such competition risks primarily by focusing on our own development and technologies. If we are unable to successfully address these challenges, our business and operating results may be adversely affected, and our development costs may increase.

RISK FACTORS

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

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

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

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

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

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reimbursement, we may remain responsible to the customer for warranty service in certain events. Any failure of our third party vendors to perform their responsibilities or to be in compliance with all applicable laws and regulations may have a material negative impact on our business.

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

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

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

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

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

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

Beginning from December 2019, a novel strain of coronavirus, or the COVID-19, resulted in prolonged mandatory quarantines, lockdown, closures of businesses and facilities and travel restrictions imposed by the governments around the world. The COVID-19 pandemic, as well as the restrictions imposed and actions taken by the governments and society as a whole in

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response to the COVID-19 pandemic, could present significant challenges and uncertainties. Although the Chinese economy has been recovering steadily from the impact of COVID-19 since the second half of 2020, any recurrence of the COVID-19 outbreak in China, such as the recurrence of COVID-19 around the end of 2020, early 2021 and early 2022, or continuance of the outbreak in other parts of the world could adversely impact our business operations or the business operations of our customers and partners thus in turn having an adverse impact on our business, results of operations and financial condition.

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

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

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

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

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

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Policing unauthorized use of our proprietary technology, trademarks and other intellectual property is difficult and expensive, and litigation may be necessary to enforce our intellectual property rights. Future litigation could result in substantial costs and diversion of our resources and could disrupt our business, as well as materially and adversely affect our financial condition and results of operations.

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

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

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

RISK FACTORS

We may be subject to intellectual property infringement claims, which could be time consuming or costly to defend and may result in diversion of our financial and management resources, and indemnity provisions in various agreements potentially expose us to substantial liability for intellectual property infringement and other losses.

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate trademarks, copyrights or other intellectual property rights held by third parties. We may from time to time be subject to such proceedings and claims. We cannot assure you that holders of patents purportedly relating to some aspect of our technology infrastructure or business, if any such holders exist, would not seek to enforce such patents against us in China or any other jurisdictions. Further, the application and interpretation of China’s patent laws and the procedures and standards for granting patents in China are still evolving and uncertain, and we cannot assure you that PRC courts or regulatory authorities would agree with our analysis. If we are found to have violated the intellectual property rights of others, we may be subject to liability for our infringement activities or may be prohibited from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives of our own. Defending against such infringement or licensing allegations and claims is costly and time consuming and may divert management’s time and other resources from our business and operations, and the outcome of many of these claims and proceedings cannot be predicted. If a judgment, a fine or a settlement involving a payment of a material sum of money were to occur, or an injunctive relief was issued against us, it may result in significant monetary liabilities and may materially disrupt our business and operations by restricting or prohibiting our use of the intellectual property in question, and our business, financial position and results of operations could be materially and adversely affected.

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

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

We have designed and implemented risk management and internal control systems comprising organizational framework policies and procedures, financial reporting processes, compliance rules and risk management measures we believe are appropriate for our business operations. While we seek to improve our risk management and internal control systems on a continuous basis, we cannot assure you that these systems are sufficiently effective in ensuring, among other things, accurate reporting of our financial results and the prevention of fraud. See “Business – Risk Management and Internal Control” for further information on our internal

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control policies. Since our risk management and internal control systems depend on implementation by our employees, and even though we provide relevant internal trainings in this regard, we cannot assure you that our employees are sufficiently or fully trained to implement these systems, or that their implementation will be free from error or mistakes. If we fail to timely update, implement, and modify, or fail to deploy sufficient human resources to maintain our risk management policies and procedures, our business, financial condition, results of operations and prospects could be materially and adversely affected.

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

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

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

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

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

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Noncompliance of third parties involved in our business could adversely affect our business.

Our business partners, including our various suppliers and customers, as well as other third parties who have entered into business relationships with our business partners, may be subject to regulatory penalties or punishments because of their regulatory compliance failures, which may, directly or indirectly, affect our business. We cannot be certain whether such third parties have infringed or will infringe any other parties’ legal rights or violate any regulatory requirements. We cannot rule out the possibility of incurring liabilities or suffering losses due to any noncompliance by third parties. We cannot assure you that we will be able to identify irregularities or noncompliances in the business practices of our business partners or other third parties, or that such irregularities or noncompliance will be corrected in a prompt and proper manner. The legal liabilities and regulatory actions on our business partners or other third parties involved in our business may affect our business activities and reputation, which may in turn affect our results of operations.

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

We adopted a share incentive plan for the benefit of our employees as remuneration for their services provided to us to incentivize and reward the eligible persons who have contributed to the success of our Company. For details, see “Appendix VI – Statutory and General Information – Further Information about Our Directors, Supervisors, Senior Management and Substantial Shareholders – 5. Employee Incentive Scheme.” In 2019, 2020, 2021 and the six months ended June 30, 2022, we incurred share-based compensation of RMB233.2 million, RMB173.7 million, RMB603.6 million and nil, respectively. To further incentivize our employees to contribute to us, we may grant additional share-based compensation in the future. Issuance of additional Shares with respect to such share-based payment may dilute the shareholding percentage of our existing Shareholders. Expenses incurred with respect to such share-based payment may also increase our operating expenses and therefore have a material and adverse effect on our financial performance.

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

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

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

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Our Directors have confirmed that, during the Track Record Period and up to the Latest Practicable Date, there were no legal or administrative proceedings pending or threatened against us or any of our Directors that could, individually or in the aggregate, have a material effect on our business, financial condition or results of operations. However, new legal or administrative proceedings and claims may arise in the future and the current legal or administrative proceedings and claims we face are subject to inherent uncertainties. If one or more legal or administrative matters were resolved against us or an indemnified third party for amounts in excess of our management’s expectations or certain injunctions are granted to prevent us from using certain technologies in our solutions, our business and financial conditions could be materially and adversely affected. Further, such an outcome could result in significant compensatory or punitive monetary damages, disgorgement of revenue or profits, remedial corporate measures, injunctive relief or specific performance against us that could materially and adversely affect our financial condition and operating results. For further details regarding our legal proceedings and compliance matters, see the sections headed “Business – Legal Proceedings and Compliance” and “Business – Licenses and Permits.”

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

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

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

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

As of the Latest Practicable Date, nine of our leased properties for our business operations in China have not been registered with the relevant PRC government authorities. As advised by our PRC Legal Advisor, failure to register such lease agreements with relevant PRC government authorities does not affect the effectiveness of the lease agreements, but the relevant PRC government authorities may order us to, within a prescribed time limit, register the lease agreements. Failure to do so may subject us to a fine ranging from RMB1,000 to RMB10,000 for each lease agreement. We estimate that the aggregate maximum amount of penalties for not registering such lease agreements would be RMB90,000. As of the Latest Practicable Date, we had not been ordered by any PRC government authorities to register any lease agreements.

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

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

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

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

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

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

RISKS RELATED TO DOING BUSINESS IN THE PRC

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

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

Uncertainties with respect to the PRC legal system and changes in applicable laws and regulations could adversely affect us.

The legal system in China is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. The legal system in China evolves rapidly, and the interpretations of many laws, regulations and rules may contain inconsistencies. However, these laws, regulations and legal requirements are constantly changing and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to us. In addition, we cannot predict the effect of future developments in the mainland Chinese legal system, particularly with regard to our industry, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. Such unpredictability towards our contractual, property (including intellectual property) and procedural rights could adversely affect our business and impede our ability to continue our operations. Furthermore, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

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

During the Track Record Period, substantially all of our revenues and expenditures were denominated in Renminbi, while the net [REDACTED] from the [REDACTED] will be in Hong Kong dollars. Fluctuations in the exchange rate between the Renminbi and the Hong Kong dollar will affect the relative purchasing power in Renminbi terms of the [REDACTED] from the [REDACTED]. Fluctuations in the exchange rate may also cause us to incur foreign exchange losses and affect the relative value of any dividend issued by our PRC subsidiaries. In addition, appreciation or depreciation in the value of the Renminbi relative to the Hong Kong dollar or U.S. dollar would affect our financial results in Hong Kong dollar or U.S. dollar terms without giving effect to any underlying change in our business or results of operations.

Movements in Renminbi exchange rates are affected by, among other things, changes in political and economic conditions and China’s foreign exchange regime and policy. The Renminbi has been unpegged from the U.S. dollar since July 2005 and, although the People’s Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in the Renminbi exchange rate, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that the PRC authorities may lift restrictions on fluctuations in Renminbi exchange rates and lessen intervention in the foreign exchange market in the future.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. The cost of such hedging instruments may fluctuate significantly over time and can outweigh the potential benefit from the reduced currency volatility. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risks. In any event, the availability and effectiveness of these hedges may be limited and we may not be able to hedge our exposure successfully, or at all.

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

Currently, the Renminbi cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. It cannot be guaranteed that under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from the SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the licenses to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by the SAFE.

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Under existing foreign exchange regulations, following the completion of the [REDACTED], we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. In addition, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to shareholders or to satisfy any other foreign exchange requirements. If we fail to obtain approval from the SAFE to convert Renminbi into any foreign exchange for any of the above purposes, our capital expenditure plans, and even our business, operating results and financial condition, may be materially and adversely affected.

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 to additional verification procedures by certain authorities. The Special Management Measures (Negative List) for the Access of Foreign Investment (2021) (《外商投資准入特別管理措施(負面清單)(2021年版)》, the “Negative List”) issued by the NDRC and MOFCOM, which set out in a unified manner the restrictive measures for the access of foreign investments such as the requirements for equity and senior management, and the industries that are prohibited for foreign investment. The Negative List covers 12 industries, and any field not covered by the Negative List shall be administered under the principle of equal treatment to domestic and foreign investment. As of the Latest Practicable Date, our main business in China does not fall within the Negative List. However, certain industries are specifically prohibited for foreign investment, which may restrict us from entering into these industries afterwards. Also, as the Negative List 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 within the Negative List. If we cannot obtain approval from relevant approval authorities to engage in a business in China that becomes prohibited or restricted for foreign investors, we may 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.

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

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

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

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

We are subject to periodic examinations on fulfillment of our tax obligation under the PRC tax laws and regulations by PRC tax authorities. Although we believe that in the past, we have acted in compliance with the requirements under the relevant PRC tax laws and regulations in all material aspects and established effective internal control measures in relation to accounting regularities, we cannot assure you that future examinations by PRC tax authorities would not result in fines, other penalties or action that could adversely affect our business, financial condition and results of operations, as well as our reputation. Furthermore, 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. Should this rule be strictly enforced, our ability to attract and retain highly skilled foreign scientists and research personnel to work in China may be materially affected, which may in turn have a material adverse effect on our business, financial condition, results of operations, cash flows and prospects. Further adjustments or changes to PRC tax laws or regulations, together with any uncertainty resulting therefrom, could also have an adverse effect on our business, financial condition and results of operations.

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

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

Non-PRC resident individuals are required to pay PRC individual income tax at a 20% rate for the income derived in China under the IIT Law and its implementation guidelines. Accordingly, we are required to withhold such tax from dividend payments, unless applicable

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

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

For non-PRC resident enterprises that do not have establishments or premises in China, and for those have establishments or premises in China but whose income is not related to such establishments or premises, under the EIT Law and its implementation regulations, dividends paid by us and gains realized by such foreign enterprises upon the sale or other disposition of H Shares are subject to PRC enterprise income tax at a 10% rate. In accordance with the Circular on Issues Relating to Withholding of Enterprise Income Tax by PRC Resident Enterprises on Dividends Paid to Overseas Non-PRC Resident Enterprise Shareholders of H Shares (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) (Guo Shui Han [2008] No. 897) issued by SAT on November 6, 2008, the withholding tax rate for dividends payable to non-PRC resident enterprise holders of H Shares will be 10% and we intend to withhold tax at a rate of 10% from dividends paid to non-PRC resident enterprise holders of our H Shares (including HKSCC Nominees). Non-PRC resident enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty or arrangement will be required to apply to the PRC tax authorities for a refund of any amount withheld in excess of the applicable treaty rate, and payment of such refund will be subject to the PRC tax authorities' approval.

Despite the arrangements mentioned above, there remain significant uncertainties as to the interpretation and application of applicable PRC tax laws and regulations by the competent tax authorities and the PRC tax laws and regulations may also change, which may adversely affect the value of your [REDACTED] in our H Shares.

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

All of our executive Directors, Supervisors and executive officers reside within China, and substantially all of our assets are located within China. Therefore, it may be difficult for [REDACTED] to effect service of process upon us or our executive Directors, Supervisors and officers inside China or to enforce against us or them in China any judgments obtained from non-PRC courts.

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

RISKS RELATED TO THE [REDACTED]

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

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

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

The trading price of our H Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in mainland China that have listed their securities in Hong Kong may affect the volatility in the price of and trading volumes for our H Shares. A number of mainland China-based companies have listed their securities, and some are in the process of preparing for listing their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The trading performances of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards mainland China-based companies listed in Hong Kong and consequently may impact the trading performance of our H Shares. Pursuant to the applicable PRC law, within the 12 months following the [REDACTED], all existing

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Shareholders (including the [REDACTED] Investors) could not dispose of any of the Shares held by them. Due to such lock-up requirement, the liquidity and trading volume of the H Shares in the short term following the [REDACTED] may be significantly affected. These factors may significantly affect the market price and volatility of our H Shares, regardless of our actual operating performance.

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

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

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

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

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

Immediately upon the completion of the [REDACTED], without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED], Dr. Dai, Ms. Wu, Beijing New Wisdom, Paradigm Investment, Paradigm Yinyuan, Paradigm Chuqi and Paradigm Tianqin, our Controlling Shareholders, will collectively control approximately [REDACTED]% of the voting power at our general meetings. Our Controlling Shareholders will, through their voting power at the Shareholders’ meetings and their delegates on the Board, have significant influence over our business and affairs, including decisions in respect of mergers or other business combinations, acquisition or disposition of assets, issuance of

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additional Shares or other equity securities, timing and amount of dividend payments, and our management. Our Controlling Shareholders may not act in the best interests of our minority Shareholders. This concentration of ownership may also discourage, delay or prevent a change in control of our Company, which could deprive our Shareholders of an opportunity to receive a premium for the Shares as part of a sale of our Company and may significantly reduce the price of our H Shares.

Payment of dividends is subject to restrictions under PRC law.

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

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

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

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

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

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

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

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

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

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

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In preparation for the [REDACTED], we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

WAIVER IN RESPECT OF MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, our Company must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Rule 19A.15 of the Listing Rules further provides that the requirement in Rule 8.12 of the Listing Rules may be waived by having regard to, among other considerations, our arrangements for maintaining regular communication with the Hong Kong Stock Exchange, including but not limited to compliance by us with Rules 19A.05 to 19A.07 of the Listing Rules.

Our headquarters are based, and most of the business operations of our Company and our subsidiaries are managed and conducted in the PRC. Our executive Directors ordinarily reside in the PRC and they play very important roles in our Company’s business operations, it is in our best interests for them to be based in places where our Group has significant operations. We consider it practically difficult and commercially unreasonable for us to arrange for two executive Directors to be ordinarily resident in Hong Kong, either by means of relocation of existing our executive Directors or appointment of additional executive Directors. Therefore, our Company does not have, and does not contemplate in the foreseeable future that we will have sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rules 8.12 of the Listing Rules.

Accordingly, pursuant to Rule 19A.15 of the Listing Rules, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange [has granted] us, a waiver from strict compliance with Rule 8.12 and Rule 19A.15 of the Listing Rules subject to the following conditions:

- (1) We have appointed Mr. Yu Zhonghao and Ms. Yeung Siu Wai Kitty as our authorized representatives (“**Authorized Representatives**”) pursuant to Rules 3.05 and 19A.07 of the Listing Rules. The Authorized Representatives will act as our Company’s principal channel of communication with the Hong Kong Stock Exchange. The Authorized Representatives will be readily contactable by phone, facsimile and email to promptly deal with enquiries from the Hong Kong Stock Exchange, and will also be available to meet with the Hong Kong Stock Exchange to discuss any matter within a reasonable period of time upon request of the Hong Kong Stock Exchange;
- (2) When the Hong Kong Stock Exchange wishes to contact our Directors on any matter, each of the Authorized Representatives will have all necessary means to contact all of our Directors (including our independent non-executive Directors) and senior management team promptly at all times. Our Company will also inform the Hong Kong Stock Exchange promptly in respect of any changes in the authorized representatives. We have provided the Hong Kong Stock Exchange with the contact details (i.e. mobile phone number, office phone number, fax number and email address) of all Directors to facilitate communication with the Hong Kong Stock Exchange;

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- (3) All Directors who do not ordinarily reside in Hong Kong possess or can apply for valid travel documents to visit Hong Kong and can meet with the Hong Kong Stock Exchange within a reasonable period;
- (4) We have appointed Guotai Junan Capital Limited as our compliance advisor (the “**Compliance Advisor**”) upon [REDACTED] pursuant to Rule 3A.19 of the Listing Rules for a period commencing on the [REDACTED] and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the [REDACTED]. The Compliance Advisor will have access at all times to our Authorized Representatives, our Directors and our senior management as prescribed by Rule 19A.05(2) of the Listing Rules, who will act as the additional channel of communication with the Hong Kong Stock Exchange when the Authorized Representatives are not available; and
- (5) We have provided the Hong Kong Stock Exchange with the names, mobile phone numbers, office phone numbers, fax numbers and email addresses of at least two of the Compliance Advisor’s officers who will act as our Compliance Advisor’s contact persons between the Hong Kong Stock Exchange and our Company pursuant to Rule 19A.06(4) of the Listing Rules.

WAIVER IN RESPECT OF APPOINTMENT OF JOINT COMPANY SECRETARY

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, we must appoint a company secretary who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Hong Kong Stock Exchange, capable of discharging the functions of the company secretary. Note 1 to Rule 3.28 of the Listing Rules provides that the Hong Kong Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a member of The Hong Kong Chartered Governance Institute;
- (b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong; and
- (c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

Note 2 to Rule 3.28 of the Listing Rules further provides that the Hong Kong Stock Exchange considers the following factors in assessing the “relevant experience” of the individual:

- (a) length of employment with the issuer and other issuers and the roles he/she played;

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- (b) familiarity with the Listing Rules and other relevant laws and regulations including the SFO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

Our Company has appointed Mr. Xiong Fei (熊飛) (“**Mr. Xiong**”), our vice president, as one of our joint company secretaries. He has extensive experience in financing and investment services but presently does not possess any of the qualifications under Rules 3.28 and 8.17 of the Listing Rules, and may not be able to solely fulfill the requirements of the Listing Rules. Therefore, we have appointed Ms. Yeung Siu Wai Kitty (“**Ms. Yeung**”), who is an associate of both The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators), who fully meets the requirements stipulated under Rules 3.28 and 8.17 of the Listing Rules to act as the other joint company secretary and to provide assistance to Mr. Xiong for an initial period of three years from the [REDACTED] to enable Mr. Xiong to acquire the “relevant experience” under Note 2 to Rule 3.28 of the Listing Rules so as to fully comply with the requirements set forth under Rules 3.28 and 8.17 of the Listing Rules.

Since Mr. Xiong does not possess the formal qualifications required of a company secretary under Rule 3.28 of the Listing Rules, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange [has granted], a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules such that Mr. Xiong may be appointed as a joint company secretary of our Company. Pursuant to the Guidance Letter HKEX-GL108-20, the waiver will be for a fixed period of time (“**Waiver Period**”) and on the following conditions: (i) the proposed company secretary must be assisted by a person who possesses the qualifications or experience as required under Rule 3.28 (“**Qualified Person**”) and is appointed as a joint company secretary throughout the Waiver Period; and (ii) the waiver can be revoked if there are material breaches of the Listing Rules by the issuer. The waiver is valid for an initial period of three years from the [REDACTED], and is granted on the condition that Ms. Yeung will work closely with Mr. Xiong to jointly discharge the duties and responsibilities as company secretary and assist Mr. Xiong in acquiring the relevant experience as required under Rules 3.28 and 8.17 of the Listing Rules. Ms. Yeung will also assist Mr. Xiong in organizing Board meetings and Shareholders’ meetings of our Company as well as other matters of our Company which are incidental to the duties of a company secretary. Ms. Yeung is expected to work closely with Mr. Xiong and will maintain regular contact with Mr. Xiong, the Directors, the Supervisors and the senior management of our Company. The waiver will be revoked immediately if Ms. Yeung ceases to provide assistance to Mr. Xiong as a joint company secretary for the three-year period after the [REDACTED] or where there are material breaches of the Listing Rules by our Company. In addition, Mr. Xiong will comply with the annual professional training requirement under Rule

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3.29 of the Listing Rules and will enhance his knowledge of the Listing Rules during the three-year period from the [REDACTED]. Mr. Xiong will also be assisted by (a) Compliance Advisor of our Company, particularly in relation to compliance with the Listing Rules; and (b) the Hong Kong legal advisors of our Company, on matters concerning our Company’s ongoing compliance with the Listing Rules and the applicable laws and regulations.

Before the expiration of the initial three-year period, the qualifications of Mr. Xiong will be re-evaluated to determine whether the requirements as stipulated in Rules 3.28 and 8.17 of the Listing Rules can be satisfied and whether the need for ongoing assistance will continue. We will liaise with the Hong Kong Stock Exchange to enable it to assess whether Mr. Xiong, having benefited from the assistance of Ms. Yeung for the preceding three years, will have acquired the skills necessary to carry out the duties of company secretary and the relevant experience within the meaning of Note 2 to Rule 3.28 of the Listing Rules so that a further waiver will not be necessary.

[REDACTED]

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[REDACTED]

WAIVER IN RELATION TO COMPANIES ACQUIRED AFTER THE TRACK RECORD PERIOD

Rules 4.04(2) and 4.04(4) of the Listing Rules require that the new applicant include in its accountants’ report the results and balance sheet of any business or subsidiary acquired, agreed or proposed to be acquired, since the date to which its latest audited accounts have been made up, in respect of each of the three financial years immediately preceding the issue of the listing document.

Pursuant to note (4) of Rule 4.04(4) of the Listing Rules, the Stock Exchange may consider an application for a waiver of Rules 4.04(2) and 4.04(4) of the Listing Rules taking into account the following factors:

- (a) that all the percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) are less than 5% by reference to the most recent audited financial year of the new applicant’s trading record period;
- (b) if the acquisition will be financed by the proceeds raised from a public offer, the new applicant has obtained a certificate of exemption from the SFC in respect of the relevant requirements under paragraphs 32 and 33 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance; and
- (c) (i) where a new applicant’s principal activities involve the acquisition of equity securities (the Stock Exchange may require further information where securities acquired are unlisted), the new applicant is not able to exercise any control, and does not have any significant influence over the underlying company or business to which Rule 4.04(2) and 4.04(4) of the Listing Rules relate, and has disclosed in its listing document the reasons for the acquisition and a confirmation that the counterparties and their respective ultimate beneficial owners are independent of the new applicant and its connected persons. In this regard, “control” means the ability to exercise or control the exercise of 30% (or any amount specified in the Hong Kong Code on Takeovers and Mergers as the level for triggering a mandatory general offer) or more of the voting power at general meeting, or being in a position to control the composition of a majority of the board of directors of the underlying company or business; or

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- (ii) with respect to an acquisition of a business (including acquisition of an associated company and any equity interest in a company other than in the circumstances covered under sub-paragraph (a) above) or a subsidiary by a new applicant, the historical financial information of such business or subsidiary is unavailable, and it would be unduly burdensome for the new applicant to obtain or prepare such financial information; and the new applicant has disclosed in its listing document information required for the announcement for a discloseable transaction under Rules 14.58 and 14.60 of the Listing Rules on each acquisition. In this regard, “unduly burdensome” will be assessed based on each new applicant’s specific facts and circumstances (e.g. why the financial information of the acquisition target is not available and whether the new applicant or its controlling shareholder has sufficient control or influence over the seller to gain access to the acquisition target’s books and records for the purpose of complying with the disclosure requirements under Rules 4.04(2) and 4.04(4) of the Listing Rules).

Background of the acquisition

Agilines Equity Interest Subscription

In February 2022, Beijing Paradigm Artificial Intelligence Equity Investment Fund (Limited Partnership) (“**Paradigm Fund**”), a limited partnership established in the PRC in which our Group has 40% limited partnership interest, subscribed for increased registered capital of RMB555,556 in Shanghai Agilines Information Technology Co., Limited (上海敏橋信息科技有限公司) (“**Agilines**”) at a consideration of RMB5.25 million (the “**First Tranche Agilines Equity Interest Subscription**”). As at the Latest Practicable Date, the First Tranche Agilines Equity Interest Subscription had been properly and legally completed and Paradigm Fund had satisfied such consideration of RMB5.25 million in cash using its internal resources.

In March 2022, Paradigm Fund further agreed to subscribe for increased registered capital of RMB251,323 in Agilines at a consideration of RMB4.75 million (the “**Second Tranche Agilines Equity Interest Subscription**”, together with the First Tranche Agilines Equity Interest Subscription, the “**Agilines Equity Interest Subscription**”). The registration with the relevant Administration for Market Regulations has been completed, and the settlement of consideration of RMB4.75 million are to be agreed among the parties. Paradigm Fund will satisfy the consideration in cash using its internal resources.

To the best knowledge of our Directors, Agilines and its ultimate beneficial owners are Independent Third Parties. The total consideration payable by Paradigm Fund as a co-investor of RMB10.0 million for the Agilines Equity Interest Subscription was determined through arms’ length negotiation and based on the target company’s funding needs and valuation negotiated by the lead investor.

WAIVERS

Our Directors considered that the Agilines Equity Interest Subscription is on normal commercial terms, fair and reasonable and in the interest of our Company and the Shareholders as a whole. As at the Latest Practicable Date, Paradigm Fund held approximately 2.50% equity interest in Agilines after completion of the First Tranche Agilines Equity Interest Subscription and will be holding approximately 3.21% after completion of the Second Tranche Agilines Equity Interest Subscription.

Agilines is a product development tool developer principally engaged in research, development and design of digital solutions for high-end manufacturing industry. It developed a product collaboration platform which is a digital research and development platform equipped with product lifecycle management and relevant tools which can support high-end manufacturing industries to realize efficient digital transformation and improve the collaborative efficiency of engineers. Our Company believes that there is potential business prospect of Agilines because it is a company focusing on industrial software which is supported by the national policy which encourages “specialization, refinement, uniqueness and innovation”, and its founder has relevant industry experience and knowledge.

Agilines commenced its business operation in 2021. According to the unaudited management accounts of Agilines, (i) its total assets amounted to approximately RMB46.7 million as at December 31, 2021, (ii) its net loss before and after tax was approximately RMB12.7 million for the year ended December 31, 2021.

Conditions to the waiver granted by the Stock Exchange

We have applied to the Stock Exchange for, and the Stock Exchange [has granted] a waiver from strict compliance with Rules 4.04(2) and 4.04(4) of the Listing Rules in respect of the Agilines Equity Interest Subscription on the following grounds:

(a) Ordinary and usual course of business and independent third parties collaboration

As explained above, Agilines is engaged in business activities complementary with or closely related to the existing business of our Company. As a result, we are of the view that the Group’s capital contribution in Paradigm Fund which enters into the Agilines Equity Interest Subscription is within the ordinary and usual course of business of our Company. In addition, to the best of our knowledge, Agilines and its ultimate beneficial owners are third parties independent of our Company and its connected persons (as defined in Chapter 14A of the Listing Rules).

(b) Immateriality

Under Rule 14.04(9) of the Listing Rules, all the applicable percentage ratios in relation to the Agilines Equity Interest Subscription are below 5% by reference to the most recent audited financial year of the Track Record Period. We consider the Agilines Equity Interest Subscription to be immaterial in the context of our Company operations as a whole and therefore a waiver from strict compliance with Rules 4.04(2) and 4.04(4) of the Listing Rules will not affect potential investors’ assessment of our business and future prospects when considering an investment in our Company.

WAIVERS

(c) Acquisition of minority interests only and absence of control

As mentioned above, we only have 40% limited partnership interest in Paradigm Fund, which only acquired approximately 3.21% equity interest in Agilines after the Agilines Equity Interest Subscription. Paradigm Fund will not appoint any director to the board of directors of Agilines. In addition, Agilines has its independent management and operations team, in which our Group and Paradigm Fund have no participation. Agilines will not be treated as our Company’s subsidiary upon completion of the Agilines Equity Interest Subscription as we will not control Agilines. As Agilines will not become subsidiary of our Company, its financial information will not be consolidated into our Company’s financial information.

(d) Impracticability and undue burden

As (i) we only have minor limited partnership interest in Paradigm Fund, which only acquired minority interest in Agilines and will not control Agilines and (ii) Agilines, will not be consolidated into our financial information, we are unable to provide our reporting accountant with full access to the financial record of Agilines in order to fully familiarize with the accounting policies of Agilines and to gather and compile the necessary financial information and supporting documents to prepare the financial information of Agilines in strict compliance with Rules 4.04(2) and 4.04(4) of the Listing Rules. As such, it would be impracticable and unduly burdensome for us to disclose the financial information of Agilines in the Document in strict compliance with Rules 4.04(2) and 4.04(4) of the Listing Rules.

(e) Alternative disclosure

With a view of allowing potential investors to understand the Agilines Equity Interest Subscription in greater detail, we have set out in this section alternative information in relation to the Agilines Equity Interest Subscription which is comparable to the information that is required for a discloseable transaction under Chapter 14 of the Listing Rules, including, among other things, (i) description of the principal business activities of Agilines; (ii) a confirmation that Agilines and its ultimate beneficial owners Agilines Equity Interest Subscription are Independent Third Parties, (iii) the consideration for the Agilines Equity Interest Subscription and how it was satisfied, (iv) basis upon which the consideration for the Agilines Equity Interest Subscription was determined, (v) the book value of the asset which is the subject of the Agilines Equity Interest Subscription, (vi) the net profit/loss (both before and after taxation) attributable to the asset which is the subject of the Agilines Equity Interest Subscription for the two financial years immediately preceding the transactions and (vii) the reasons for entering into the Agilines Equity Interest Subscription and the benefits which are expected to accrue to our Company as a result of the Agilines Equity Interest Subscription.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]

DIRECTORS

Name	Address	Nationality

Executive Directors

Dr. Dai Wenyuan (戴文淵)	Room 903, Unit 2, Building 6 Block 3, Poly Xishan Linyu Heilongtan Road Haidian District, Beijing PRC	Chinese

Mr. Chen Yuqiang (陳雨強)	Room 1301, Unit 4, Level 13 Building 3 West District Qinghe Jiayuan Haidian District, Beijing PRC	Chinese

Mr. Yu Zhonghao (于中灝)	No. 1001 10 Dengshikou Avenue East Dongcheng District, Beijing PRC	Chinese

Non-Executive Directors

Dr. Yang Qiang (楊強)	Flat H, 23/F, Block 5 East Point City 8 Chung Wa Road Tseung Kwan O, New Territories Hong Kong	Chinese

Mr. Dou Shuai (竇帥)	Room 2205, Building 1 Beijing Palm Springs International Apartment No. 8, Chaoyang Park South Road Chaoyang District, Beijing PRC	Chinese

Mr. Zhang Jing (張晶)	Flat 6, 25/F, Block 3 11 Hoi Fan Road Hampton Place Tai Kok Tsui Kowloon Hong Kong	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]

Independent Non-Executive Directors

Mr. Li Jianbin (李建濱)	2101, Unit 1, Building No.2 Wanxiangfu, Oak Bay Phase 5 Haidian District, Beijing PRC	Chinese
Mr. Liu Chijin (劉持金)	H2 Liying Road Lixi Garden, 16 Tianzhu Kaifa Street Shunyi District, Beijing PRC	American
Ms. Ke Yele (柯燁樂)	Flat B, 11/F Tower 1 Central Park 18 Hoi Ting Road Kowloon Hong Kong	Chinese

SUPERVISORS

Name	Address	Nationality
Mr. Chai Yifei (柴亦飛)	Room 701, No. 10, Lane 59 Pingyang Road, Minhang District Shanghai PRC	Chinese
Ms. Zhou Wenjing (周文靜)	16, Level 2, Building No. 2 Anhui Dongli Chaoyang District, Beijing PRC	Chinese
Ms. Shao Liling (邵麗玲)	Room 2802, Unit 2, Level 18, 5 Chaoyang Road Chaoyang District, Beijing PRC	Chinese

For details with respect to our Directors and Supervisors, see the section headed “Directors, Supervisors and Senior Management” in this Document.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]

PARTIES INVOLVED IN THE [REDACTED]

Joint Sponsors

Goldman Sachs (Asia) L.L.C.

68/F, Cheung Kong Center
2 Queen’s Road
Central
Hong Kong

China International Capital Corporation

Hong Kong Securities Limited

29/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

[REDACTED]

Legal Advisors to our Company

As to Hong Kong law and United States law

Davis Polk & Wardwell

18th Floor
The Hong Kong Club Building
3A Chater Road
Hong Kong

As to PRC law

JunHe LLP

26/F, HKRI Centre One
HKRI Taikoo Hui 288 Shimen Road (No. 1)
Shanghai
PRC

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]

Legal Advisors to the Joint Sponsors and the [REDACTED]

As to Hong Kong law and United States law

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1 Connaught Road Central

Hong Kong

As to PRC law

Commerce & Finance Law Offices

12-14th Floor, China World

Office 2, No.1 Jianguomenwai Avenue

Beijing, PRC

Reporting Accountant and Independent Auditor

PricewaterhouseCoopers

Certified Public Accountants and Registered

Public Interest Entity Auditor

22/F, Prince’s Building

Central

Hong Kong

Industry Consultant

China Insights Industry Consultancy Limited

10F, Block B

Jing’an International Center

88 Puji Road, Jing’an District

Shanghai

PRC

[REDACTED]

CORPORATE INFORMATION

Registered Office	No. L01301-1, Level 13 Building 1, No. 66 Qinghe Middle Street Haidian District, Beijing PRC
Headquarters and Principal Place of Business in the PRC	No. L01301-1, Level 13 Building 1, No. 66 Qinghe Middle Street Haidian District, Beijing PRC
Principal Place of Business in Hong Kong	5/F, Manulife Place 348 Kwun Tong Road Kowloon, Hong Kong
Company’s Website	<u>www.4paradigm.com</u> <i>(The information contained in this website does not form part of this Document)</i>
Joint Company Secretaries	Mr. Xiong Fei (熊飛) Room 1103, Unit 1, Building 1 Xiangshuwan III, Qinghe Town Haidian District, Beijing PRC Ms. Yeung Siu Wai Kitty (楊小慧) ((ACG, HKACG)) 5/F, Manulife Place 348 Kwun Tong Road Kowloon, Hong Kong
Authorized Representatives	Mr. Yu Zhonghao (于中灝) Room 1001, Building 10 East Dengshi Dongkou Avenue Dongcheng District, Beijing PRC Ms. Yeung Siu Wai Kitty (楊小慧) ((ACG, HKACG)) 5/F, Manulife Place 348 Kwun Tong Road Kowloon, Hong Kong

CORPORATE INFORMATION

Audit Committee

Mr. Li Jianbin (李建濱) (*Chairman*)

Mr. Liu Chijin (劉持金)

Dr. Yang Qiang (楊強)

Remuneration Committee

Ms. Ke Yele (柯燁樂) (*Chairlady*)

Dr. Yang Qiang (楊強)

Mr. Li Jianbin (李建濱)

Nomination Committee

Dr. Dai Wenyuan (戴文淵) (*Chairman*)

Mr. Liu Chijin (劉持金)

Mr. Li Jianbin (李建濱)

Compliance Advisor

Guotai Junan Capital Limited

27/F, Low Block

Grand Millennium Plaza

181 Queen’s Road Central

Hong Kong

[REDACTED]

Principal Banks

China Merchants Bank, Haidian Branch

No. 56, North 4th Ring Road West

Beijing, PRC

**Industrial and Commercial Bank of
China, Haidian West District Branch**

No. 65, North 4th Ring Road West

Beijing, PRC

INDUSTRY OVERVIEW

The information and statistics set out in this section and other sections of this document were extracted from different official government publications, available sources from public market research and other sources from independent suppliers, and from the independent industry report prepared by CIC. We engaged CIC to prepare the CIC Report, an independent industry report, in connection with the [REDACTED]. The information from official government sources has not been independently verified by us, the [REDACTED], [REDACTED], Joint Sponsors, [REDACTED], [REDACTED], [REDACTED], any of the [REDACTED], any of their respective directors and advisers, or any other persons or parties involved in the [REDACTED], and no representation is given as to its accuracy. Accordingly the information from official government sources contained herein may not be accurate and should not be unduly relied upon.

RAPID DEVELOPMENT OF ARTIFICIAL INTELLIGENCE INDUSTRY

Artificial intelligence is reaching its tipping point of large scale adoption

Artificial intelligence (“AI”) represents a wide-ranging technology that reshapes how human beings integrate information, analyze data, and derive insights to improve efficiency and optimize decision-making with the help from machines. After years of development and field tests, AI has turned into an increasingly adopted technology empowering a variety of sectors, restructuring certain industry landscapes as a new infrastructure.

AI penetration in the overall economy has been growing but still largely underdeveloped, mainly due to deterrents such as insufficient data, relatively high cost of adoption, system security and governance concerns, as well as deployment challenges. In recent years, however, the market and the society as a whole have been gradually recognizing the transformative effect of AI. In particular, the below technological and societal progresses have expedited AI’s commercial applications.

Data accumulation

The world today is substantially digitized and interconnected, resulting in an explosion of data. 83 zettabytes of data were created, captured, copied and consumed globally in 2021, which has grown nearly 30 times in the last decade, and will further grow to 208 zettabytes by 2026, according to CIC. Such sheer amount of data give rise to massive opportunities to uncover the significant insights embedded therein for every organization, yet such amount of data also present unprecedented challenges for data analysis, which has been increasingly difficult and costly for human labor to handle. The accumulation of data therefore catalyzed the adoption of AI. Meanwhile, learning, training and developing from the enriched data, AI keeps growing smarter and capable of solving real-world problems in a more efficient way.

INDUSTRY OVERVIEW

Advancement of both computational and algorithmic infrastructure

- *Surging computing power:* Computing power is closely related to the development of chips. Most chip firms have their AI chip lineups vastly improved on the computing power compared to prior generations. According to the CIC Report, the computing power of newly developed generation of AI chips by major chip firms is improved to as high as ten times that of the previous generation of the same lineup.
- *Reduced time and cost of model training:* New algorithms and frameworks have emerged to boost the efficiency of AI training and industrial deployment. For example, with transfer learning technology, the insights gained by one trained AI model are transferrable and reproducible; with automated machine learning (AutoML), all developers and business line users are enabled to develop and optimize machine-learning models, reducing heavy reliance on machine-learning experts.

Improved awareness of deploying AI applications across all sectors

AI continues to transform industries across the globe, and decision makers of all kinds are taking notice, and making their investments in AI. According to the CIC Report, in 2021, the global AI spending reached US\$163.8 billion, representing a CAGR of 37.2% from US\$46.2 billion in 2017, and is expected to expand to US\$463.9 billion in 2026 with a CAGR of 23.1%. It is estimated that nearly 15% of the global GDP would be driven by AI by 2030, according to the CIC Report.

China is pioneering the development of global AI industry

Among the forerunners that are embracing AI with open arms, China is home to a vibrant market that is now pioneering the global AI industry with transcending boundaries and surging AI innovations. In terms of the demand side, AI is believed to be an accessible and easy-to-use instrument that leads to operational efficiency and business success in the digital era for entities of all sizes in China. China’s significant economic scale and considerable social activity level bring about a rich variety of application scenarios that are AI-penetrable. There exists huge demand in China for AI solutions that are tailored for diverse and dynamic scenarios and real-world tasks, encouraging innovation in both technology and business model. In terms of the supply side, AI providers in China benefit from large and growing amount of data derived from the economic scale and social activity level, strong talent pool, advanced research capabilities and vibrant AI domain players. Moreover, Chinese government’s supporting policies and regulations, which promote the development of AI technologies, the education of AI talents and the application of AI solutions, are expected to further drive the rapid development of China’s AI industry. As a result, China is leading the innovation and commercialization of AI globally.

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According to the CIC Report, China’s AI spending reached RMB198.7 billion in 2021, and is estimated to grow to RMB846.6 billion in 2026 with a CAGR of 33.6%. China is a major AI market with increasing global influences, evidenced by the following facts according to the CIC Report and “Artificial Intelligence Index Report 2022” by Stanford Institute for Human-Centered Artificial Intelligence (HAI):

- China rose to the second largest AI market globally in terms of AI spending in 2021, capturing approximately 19% of global AI spending.
- With surging demand for AI, the growth of China’s AI spending is expected to reach a CAGR of 33.6% from 2021 to 2026, significantly outpacing the growth of global AI spending over the same period.
- China was the largest market globally in terms of the number of AI patent application filings in 2021, with one of the largest talent pools of top-tiered AI researchers.
- China rose to the largest market globally in terms of the number of AI journal publications and AI journal citations in 2021.

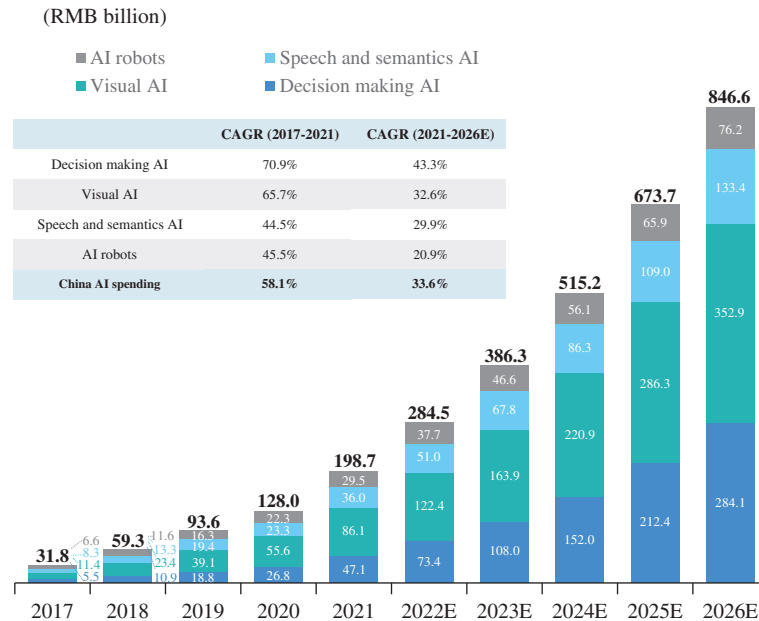
China’s AI industry can be categorized into four major segments in terms of fields of application: decision-making AI, visual AI, speech and semantics AI and AI robots. The following sets forth the definition and typical application scenarios for each of the four categories:

- *Decision-making AI* recognizes patterns hidden in data, guides decision-making process on data insights, and addresses issues that are most pertinent to core business operations. Typical applications include, but are not limited to, smart sales and marketing, risk management, and supply chain management.
- *Visual AI* identifies, tracks and measures objects based on visual data, and translates such information into insights and judgments. Typical applications include, but are not limited to, smart access control, public safety surveillance, optical character recognition (“OCR”).
- *Speech and semantics AI* aims to recognize, generate and exchange voices, texts and other language information with human beings to save human labor in certain repetitive communication scenarios. Typical applications include, but are not limited to, smart customer service, intelligent transcription, interactive voice response.
- *AI robots* are designed to replace human beings in performing certain repetitive or dangerous tasks. Typical AI robots include, but are not limited to, industrial drones, automated guided vehicles (“AGVs”), surgical robots.

Among the above segments, decision-making AI is expected to be the fastest-growing one according to the CIC Report. The size of China’s decision-making AI market in terms of AI spending reached RMB47.1 billion in 2021 and is estimated to grow to RMB284.1 billion in 2026, with a CAGR of 43.3%.

INDUSTRY OVERVIEW

Market Size Breakdown of China AI Industry by Segment, 2017A-2026E



Source: CIC Report

Note: The market size was determined and calculated based on (i) the primary and secondary research performed by CIC on the status quo and future trends of China’s AI industry, (ii) with references to relevant downstream vertical industry data publicly released by National Bureau of Statistics and other official organizations and associations, such as China Banking and Insurance Regulatory Commission and China Association of Automobile Manufacturers.

DECISION-MAKING AI MARKET IN CHINA

Significant value unleashed by machines in facilitating decision-making

To fully utilize the value contained in data, many organizations have adopted a data-driven approach to support decision-making in their daily operations. With regard to distilling insights from massive and ever growing data, it makes a difference if the data processor is machine instead of human.

Prior to the development of AI and its eventual commercial application, even with enough data inputs, organizations have had to rely on human perception, experience, judgment and sometimes even intuition to make decisions. We are currently living in an ever-changing world where common sense and accumulated experiences can no longer anticipate the risks involved in making a critical decision, nor can we bear the consequences of making wrong decisions. Meanwhile, it becomes more and more difficult, costly and ultimately impractical to process and analyze massive data in the digital era manually.

INDUSTRY OVERVIEW

The AI-driven decision-making model, without human beings’ limits such as fixed throughput and cognitive bias, is now automating and augmenting the workforce, and in some cases even freeing human force from the tradition mode of workflow to improve the reliability and efficiency of decision-making. With increasingly diverse scenarios penetrated, decision-making AI can optimize almost all building blocks of enterprise operation from top to bottom, including, but not limited to, expanding business scale, improving sales and marketing efficiencies, enhancing operating leverage. For example, in the context of smart sales and marketing, AI-driven solutions, by increasing the accuracy of targeted marketing, can support revenue growth for e-commerce companies. AI-driven decision-making is also transforming risk management in the banking and finance industry. For instance, using AI-based credit risk models could reduce default rates significantly. More and more industries are embracing the great impact of the advanced decision-making AI technology.

Distinguished from other AI solution segments, which are primarily focused on perception and cognition of data patterns, decision-making AI provides predicative analysis and recommendations to support and guide business actions. It is applied in various real-world scenarios such as targeted marketing, risk management and day-to-day operations optimization. The spending on decision-making AI in China is estimated to enjoy significant growth and to take up a higher proportion in the overall AI spending in the coming five years, according to CIC.

The platform-centric approach to scale up application of decision-making AI

Despite the favorable market environment of advancing decision-making AI in China, organizations are often faced with certain key challenges that make it difficult to self-develop and adopt AI applications:

Shortage of AI experts: The shortage of experienced AI experts and data scientists, has long been a critical deterrent for organizations to establish in-house AI talent team that can develop and operate AI infrastructures. For many organizations, shortage of talents is a major hurdle to develop AI in-house.

High TCO (total cost of ownership) and uncertain ROI (return on investment): Building a proprietary AI system, or assembling multiple point-solution AI software applications can be very costly for most enterprises. For example, CIC estimates that it typically costs a company an upfront investment of approximately RMB500 million to internally develop a full set of enterprise-level AI system, which, coupled with costs of continuous maintenance at approximately RMB50 million per annum, results in a much higher TCO compared to an annual spending of approximately RMB50 million to RMB100 million, should the company build an AI system with the same standard through external procurement. Moreover, due to lack of AI expertise and model training, such internally developed AI systems may consume even greater investments and cause longer time to value on an ongoing basis, and the effectiveness and efficiency gain from such systems could still be unsatisfactory, resulting in highly uncertain ROI.

INDUSTRY OVERVIEW

Deployment issues: Given the technology- and capital-intensive nature, it could take significant resources for companies to deploy AI solutions at scale for developing their customized applications that automate the internal processes such as decision-making. In most cases companies need to adopt a “trial and error” approach for developing and implementing in-house developed AI applications or purchased point solutions in order to find the optimal application portfolio that best suits their business practices. The deployment process takes a long time. As estimated by CIC, it takes approximately three years on average for enterprises to establish large-scale AI infrastructure and AI capabilities internally with their current AI team setup.

Data and system incompatibility: Adoption of outsourced point-solution AI applications poses the risk of incompatibility between the point solution applications and/or between the point solution applications and in-house developed AI applications. Moreover, organizations’ increased awareness of data security, data privacy protection and centralized data and system management adds to the complexity of deploying different point solutions and digesting multiple data sources.

The rapid emergence of platform-centric AI solutions in China recognized and well addressed the aforesaid challenges. Unlike point solutions, platform-centric decision-making AI solutions provide end users with an AI development platform in addition to AI applications and underlying computing infrastructure. Such an AI development platform provides end users with uniform development standards, high compatibility as well as flexible expansion of applications per actual demands. With the plug-and-play feature and infrastructure for further developing and operating use-case-specific solutions, decision-making AI platforms allow for much greater flexibility, scalability, compatibility and easier management.

Comparison between decision-making AI platform and point solution approach

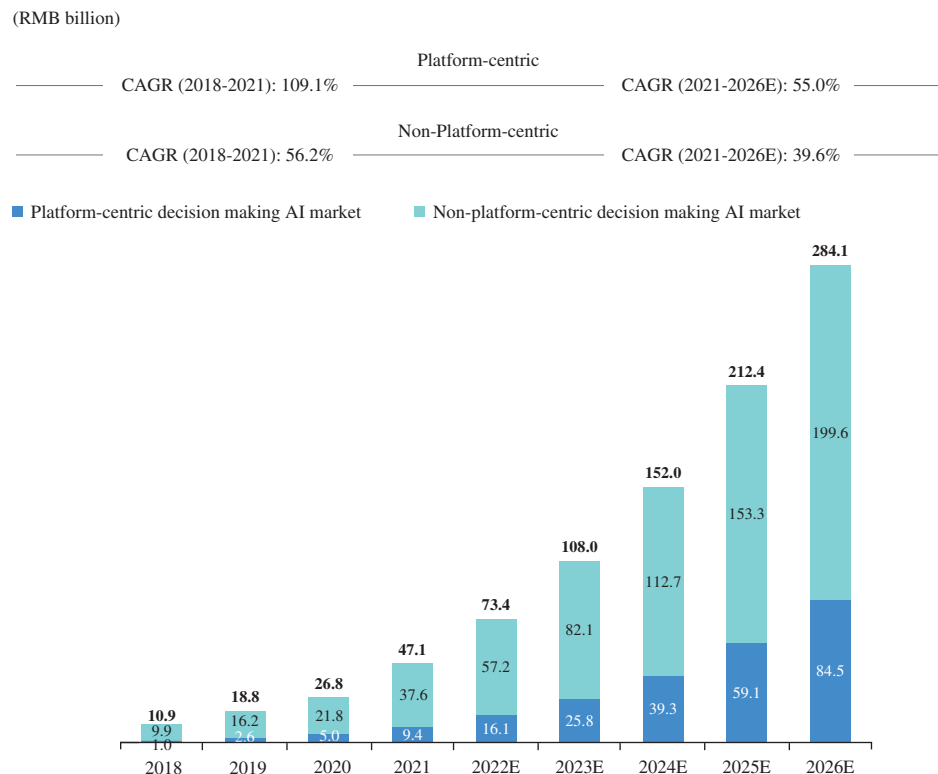
Metrics	Decision making AI platform	Point Solution Approach
Flexibility and scalability	- Allows for flexible, on-demand AI development - Modules and applications are transferrable and reproducible for similar/adjacent scenarios	- Point solutions are mostly fixed, one-off deliverables - Difficult to meet extra customized demands that need to be expanded on the original solution
Compatibility of data and AI applications	- Different sources of data can be integrated and uniformly defined on the platform, which eliminates data inconsistency and information silos - Applications are compatible with the development environment and rules	- Each specific workflow is usually provided by different vendors and involve only part of the users’ whole datasets – might create new data silos within an already fragmented data landscape - Need to be stitched together in order to interoperate, and applications could vary in the basic framework, data standard, processing rules, etc.
Management of AI applications	- Features that enable fast and convenient AI application management are usually provided upfront - A uniform security model for all datasets and applications is pre built-in	- Extra function to manage AI applications is needed - Deploying an extra security model that functions effectively across different individual applications can be much more costly

Source: CIC Report

INDUSTRY OVERVIEW

Within the decision-making AI market, the platform-centric decision-making AI market in China is a vastly expanding subsegment. The size of platform-centric decision-making AI market reached RMB9.4 billion in 2021 in terms of AI spending and is estimated to grow at a CAGR of 55.0% to RMB84.5 billion in 2026, outgrowing the decision-making AI industry as a whole. The key difference between non-platform-centric and platform-centric decision making AI solutions lies in their potential for AI development and deployment to meet changing demands, namely the expansibility of more AI applications in other use case scenarios and the compatibility of those AI applications. Non-platform-centric decision-making AI applications are mostly fixed and one-off deliverables and can hardly adapt to users’ extra demands that require expansions on the original solution, primarily because AI applications designed for different workflows could also differ in their basic frameworks, underlying data governance infrastructure, or processing rules, leading to incompatibility of AI systems. In contrast, the decision-making AI platform underlying platform-centric decision making AI solutions provide operating environment and tools that allow for flexible AI development with transferrable and reproducible modules and applications for similar or adjacent scenarios. It also unifies the development environment and rules of all applications built on top. This unification saves the translation costs in integrating non-platform-centric decision-making AI applications that were independently developed, and it allows the AI systems to be perfectly compatible with each other. In this regard, platform-centric decision-making AI solutions leave more room for enterprises’ smooth and integrated AI development and deployment in the future.

Market Size of Decision Making AI Market in China, 2018A-2026E



Source: CIC Report

Note: The market size was determined and calculated based on further primary and secondary research performed by CIC on top of China’s AI industry market breakdown presented above.

INDUSTRY OVERVIEW

Competitive landscape

The following table sets forth the top five players in the platform-centric decision-making AI market in China by revenue in 2021, according to CIC. The top five players represented a combined market share of approximately 51.5%, as measured by relevant revenue in 2021. According to the CIC report, we were the largest platform-centric decision-making AI provider in China in terms of revenue in 2021.

Ranking	Company	Platform-centric decision-making AI revenue, 2021 (RMB million)	Market share, 2021 (%)
1	4Paradigm	1,939	20.5
2	Company A ⁽¹⁾	1,050	11.1
3	Company B ⁽²⁾	742	7.9
4	Company C ⁽³⁾	581	6.2
5	Company D ⁽⁴⁾	551	5.8
Top five in total		4,863	51.5

Source: CIC Report

Note: The revenues of 4Paradigm’s competitors presented above were based on the primary research performed by CIC as there is no publicly available information regarding their platform-centric decision-making AI revenue.

Notes:

- (1) Company A, founded in 2000 and headquartered in Beijing, is a leading internet platform specializing in internet-related services and AI solutions, such as AI cloud services and solutions, mobile applications and services, and intelligent driving. Company A is listed on the Stock Exchange and the NASDAQ.
- (2) Company B, founded in 1999 and headquartered in Hangzhou, is a leading technology company focusing on retail, consumer services and technology solutions. Company B operates e-commerce platforms consumer service platforms, cloud services and solutions such as cloud computing, big data and AI, and other business such as digital media and entertainment. Company B is listed on the Stock Exchange and New York Stock Exchange.
- (3) Company C, founded in 1987 and headquartered in Shenzhen, is a leading technology company which primarily designs, develops and sells telecommunication solutions (such as telecommunication base stations) and consumer electronics (such as mobile phones and laptops). Company C is a private company with a registered capital of approximately RMB40 billion.
- (4) Company D, founded in 1998 and headquartered in Shenzhen, is a leading technology company that provides internet-related services and solutions for both consumers and enterprises. Its business include communications and social media, digital content, entertainment, AI, cloud services, among others. Company D is listed on the Stock Exchange.

We believe 4Paradigm differentiates itself from competitors in many ways, at the core of which is that its business solely focuses on providing pure-play AI solutions.

INDUSTRY OVERVIEW

According to the CIC Report, 4Paradigm’s major competitors are internet conglomerates that typically offer AI solutions merely to complement their diversified business portfolios, and AI solutions account for only a portion of their expansive business scope. For details of the competitive strengths that contribute to 4Paradigm’s success and differentiate it from its competitors, see “Business – Competitive Strengths.”

Besides, regarding the nature of AI solutions provided, 4Paradigm focuses on decision-making with a platform-centric approach, whereas its major competitors show a blended solution portfolio with a considerable proportion of AI-related revenues generated from visual and speech and semantics AI solutions, as well as AI applications provided independently of a platform. This distinction gives rise to 4Paradigm’s reputation for “professionalism” when it comes to demands for platform-centric decision-making AI solutions.

KEY SUCCESS FACTORS FOR AI SOLUTION PROVIDERS IN CHINA

Value creation for customers

In order to break into a market for any industry or vertical, AI solution providers normally seek to land on selective customers as a starting point, particularly on industry leaders. They first establish deep trust and obtain cooperative relationship with these selective customers that are recognized as “lighthouses” in the respective sectors and verticals. After helping these lighthouse users identify critical issues, provide solutions and achieve the objectives of business improvement, AI solution providers typically identify incremental demands and thus expand their scale of deployment. The AI-empowered improvement of the lighthouse users will then serve as proof points to keep attracting potential customers in the respective industries and verticals. Therefore, the ability to create value and help customers achieve continuous success is of vital importance for decision-making AI firms to pioneer in the industry.

First-mover advantage

Upon helping the lighthouse users achieve business improvement, decision-making AI providers then can leverage their industry know-how and practical experiences to attract and serve other customers in the targeted industries. First-mover advantage is a vital factor of the success in the AI industry. First-movers benefit from training AI for rich application scenarios, frequently engaging with their lighthouse users, and accumulating industry know-how that in turn helps them quickly expand their user base, formulating a virtuous cycle. They are therefore able to iterate smarter AI and to quickly adapt AI solutions to evolving user needs effectively.

Advanced technology and innovation

Technology capability is crucial for the prosperity of AI solutions providers. In light of the rapidly evolving nature of the AI industry, the ability to continuously adopt advanced technologies and to roll out innovative solution and service offerings is essential to maintaining competitive advantages.

INDUSTRY OVERVIEW

Talent acquisition and retention

Demand for AI talents has grown rapidly in the past few years. As the industry rapidly evolves and as AI solutions come to be widely deployed, companies at every level of AI sophistication become conscious of skill gaps and aim to fill them. The technology-intensive nature of the AI business also requires experienced and skilled talents. Therefore, the ability to continue attracting and retaining talents has become a major success factor.

SOURCES OF INFORMATION

We commissioned China Insights Consultancy, an independent market research and consulting firm, to provide an analysis of, and to produce a report (the “CIC Report”) on China’s AI market. China Insights Consultancy, founded in Hong Kong, provides professional services including, among others, industry consulting, commercial due diligence and strategic consulting. We have agreed to pay a fee of RMB1,240,060 to China Insights Consultancy in connection with the preparation of the CIC Report. The report was prepared independent of the influence of us and other interested parties. We have extracted certain information from the CIC Report in this section, as well as elsewhere in this Document, to provide our potential [REDACTED] with a more comprehensive presentation of the industry in which we operate.

During the preparation of the CIC Report, China Insights Consultancy performed both primary and secondary research, and obtained knowledge, statistics, information on and industry insights into China’s AI market. Primary research involved interviewing key industry experts and leading industry participants. Secondary research involved analyzing data from various publicly available data sources.

The market projections in the CIC report are based on the following assumptions: (i) the overall social, economic, and political environment in China is expected to remain stable during the forecast period; (ii) relevant key drivers are likely to drive the continued growth of China’s AI market throughout the forecast period; and (iii) there is no extreme force majeure or unforeseen industry regulation in which the industry may be affected in either a dramatic or fundamental way. All forecasts in relation to market size are based on the general economic conditions as of the Latest Practicable Date, which would be adjusted if the COVID-19 outbreak persists or escalates and has an unpredictable negative impact on the general economy.

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Information disclosed in this section is relevant PRC laws, regulations and regulatory documents in effect which have a significant impact on our operations in the PRC as of the date of this Document (hereinafter referred to as “PRC Laws”), which are subject to change in the future, but it does not include a detailed analysis of PRC Laws related to our business activities and operations in the PRC, or serve as all PRC Laws applicable to our operations in the PRC.

REGULATIONS AND POLICIES ON INFORMATION INDUSTRY

Policies on Artificial Intelligence

In accordance with the Notice of the State Council on Promulgating “Made in China 2025” Plan (國務院關於印發《中國製造2025》的通知) which was promulgated by the State Council on May 8, 2015 and came into effect on the same date, to fully implement the intention of the 18th National Congress of CPC and the Second, Third and Fourth Plenary Sessions of the 18th Central Committee of the CPC and adhere to the path of new industrialization with Chinese characteristics, the promotion of integrated development of the next generation information technology and manufacturing technology and regard intelligent manufacturing are the main directions of comprehensive integration of informationization and industrialization. And efforts should be made to develop intelligent equipment and intelligent products, promote intelligent production process, cultivate new production methods, and comprehensively enhance the intelligent level of research and development, production, management and service of enterprises.

The Development Plan of New Generation Artificial Intelligence (新一代人工智能發展規劃) which was promulgated by the State Council on July 8, 2017 and came into effect on the same date, according to which, the State accelerates the cultivation of an artificial intelligence industry with a major leading role, promote the in-depth integration of artificial intelligence and various industrial fields, and form a data-driven, human-machine collaboration, cross-border integration, and co-creation and sharing of intelligent economic forms. Data and knowledge have become the first element of economic growth, human-machine collaboration has become the mainstream mode of production and service, cross-border integration has become an important economic model, co-creation and sharing has become a basic feature of economic ecology, personalized demand and customization have become a new trend in consumption. Develop key basic software such as artificial intelligence-oriented operating systems, databases, middleware, and development tools, break through core hardware such as graphics processors, and study image recognition, speech recognition, machine translation, intelligent interaction, knowledge processing, control decision-making and other intelligent system solutions and cultivate and expand the basic software and hardware industries for artificial intelligence applications.

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The Guidelines for the Construction of the National New Generation of AI Open Innovation Platform (國家新一代人工智能開放創新平臺建設工作指引), promulgated by Ministry of Science and Technology of the People’s Republic of China on August 1, 2019 and came into effect on the same date, pointed out that “open and sharing” shall be the important philosophy in promoting artificial intelligence innovation and industry development in China, and encouraged to open innovation platforms for companies to do testing, and thus to form standard and modularized models, middleware and applications for providing services to the public in the form of open interfaces, model libraries, algorithm packages, etc.

The Guidelines for the Construction of the National New Generation Artificial Intelligence Innovation and Development Pilot Zone (國家新一代人工智能創新發展試驗區建設工作指引), promulgated by Ministry of Science and Technology of the People’s Republic of China on August 29, 2019, amended on September 29, 2020 and came into effect on the same date, underlines that an environment conducive to the innovation and development of artificial intelligence shall be created, as well as to promote the construction of artificial intelligence infrastructure and strengthen the conditional support for the innovation and development of artificial intelligence.

Regulations on Computer Software

In accordance with the Regulations on the Protection of Computer Software (計算機軟件保護條例) promulgated by the State Council on June 4, 1991 and latest amended on January 30, 2013, with the latest revision effective on March 1, 2013, Chinese citizen, legal person or other organization is entitled under the copyright of the software he/it has developed, including the right of publication, right of acknowledgement, right of alteration, right of reproduction, right of distribution, right of leasing, right of dissemination, right of translation and other rights that software copyright owners shall have, regardless of whether such software has been published.

In accordance with the Measures for Registration of Computer Software Copyright (計算機軟件著作權登記辦法) promulgated by the National Copyright Administration on April 6, 1992 and latest amended on February 20, 2002, with the latest revision effective on the same date, software copyrights, exclusive software copyright licensing contracts and transfer contracts shall be registered, and the National Copyright Administration shall be the competent authority for the administration of software copyright registration and has certified the China Copyright Protection Centre as the institution responsible for software registration. Applications that comply with the rules shall be granted registration, and a corresponding registration certificate shall be issued by the China Copyright Protection Centre.

REGULATORY OVERVIEW

National Catalogue for Guidance on Industrial Restructuring

In accordance with the National Catalogue for Guidance on Industrial Restructuring (2019 Version) (產業結構調整指導目錄(2019年本)) which was promulgated by the National Development and Reform Commission on October 30, 2019 amended on December 30, 2021 and came into effect on the same date, big data, cloud computing, software and information technology service and blockchain information services within the extent permitted by PRC are under the encouraged category.

Outline of the 14th Five-Year Plan for National Economic and Social Development

The Outline of the 14th Five-Year Plan for National Economic and Social Development of the People’s Republic of China and Outlines of Objectives in Perspective of the Year 2035 (中華人民共和國國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要), promulgated by the Standing Committee of the National People’s Congress on March 11, 2021 and came into effect on the same date, points out the focus of key areas include high-end chips, operating systems, key artificial intelligence algorithms, sensors, and PRC shall speed up technology R&D, and make breakthroughs in basic theories, basic algorithms, and equipment materials.

Policies on the Software Industry

The Several Policies on Further Encouraging the Development of the Software and Integrated Circuit Industries (進一步鼓勵軟件產業和集成電路產業發展若干政策) which was promulgated by the State Council on January 28, 2011 and came into effect on the same date, specifies a series of policies on tax preference, promotion of investment and scientific research and talent support for the software industry.

REGULATIONS RELATING TO INTERNET INFORMATION SECURITY AND PRIVACY PROTECTION

In accordance with the Law of the Cybersecurity Law of the People’s Republic of China (中華人民共和國網絡安全法) which was promulgated by the Standing Committee of the National People’s Congress on November 7, 2016 and came into effect on June 1, 2017, PRC adopts graded system for cybersecurity protection, under which network operators are required to perform the obligations of security protection to ensure that the network is free from interference, disruption or unauthorized access, and prevent network data from being disclosed, stolen or tampered. In the event that the network operator fails to fulfill obligation concerning graded system for cybersecurity protection, the competent authority shall warn such operator and order it to make rectifications. A fine ranging from RMB10,000 to RMB100,000 shall be imposed on such operator if it refuses to make rectifications or in case of consequential severe damage to the network, and a fine ranging from RMB5,000 to RMB50,000 shall be imposed on the supervisor directly in charge.

REGULATORY OVERVIEW

In accordance with the Administrative Measures for the Hierarchical Protection of Information Security (信息安全等級保護管理辦法) which was promulgated by the Ministry of Public Security, State Secrecy Administration State Cryptography Administration, and the Information Office of the State Council on June 22, 2007 and came into effect on the same date, and the Guide for the Grading of Information Security and Cybersecurity 信息安全技術網絡安全等級保護定級指南, which was promulgated by Standardization Administration of the PRC on April 28, 2020 and came into effect on November 1, 2020, the hierarchical protection of the information security at the national level shall follow the principle of “independent grading and independent protection”. Accordingly, the security protection grade of the information system shall be determined by entities operating and using an information system in accordance with the applicable rules. And in the cloud computing environment, based on different service modes, the cloud computing platform/system is divided into different grading objects.

In accordance with the State Security Law of the People’s Republic of China (中華人民共和國國家安全法) which was promulgated by Standing Committee of the National People’s Congress on July 1, 2015 and came into effect on the same date, the PRC government shall develop network and information security assurance system, enhance network and information security assurance capabilities, strengthen innovative research and development and application of network and information technologies and realize the security and controllability of network and information core technologies, critical infrastructure and information systems and data in key areas; the PRC government shall also enhance network management, prevent, deter and punish network criminal acts such as cyber-attacks, network intrusion, network theft and illegal spread of harmful information in order to safeguard the sovereignty, security and development interests of the state cyberspace.

In accordance with the Criminal Law of the People’s Republic of China (中華人民共和國刑法) which was promulgated by the National People’s Congress on July 6, 1979 and latest amended on December 26, 2020, with the latest revision effective on March 1, 2021, a network service provider is subject to criminal liability if such network service provider fails to perform such obligation to manage information network security as specified by laws and administrative regulations, and refuses to make corrections when is ordered by a supervisory authority to do so, and involves any of the specified serious cases.

In accordance with the Data Security Law of the People’s Republic of China (中華人民共和國數據安全法) which was promulgated by the Standing Committee of the National People’s Congress on June 10, 2021 and came into effect on September 1, 2021, PRC protects the rights and interests of individuals and organizations relating to data, encourages the lawful, reasonable and effective use of data, guarantees the orderly and free flow of data in accordance with the law, and promotes the development of the digital economy with data as a key element. And PRC establishes a data classification and hierarchical protection system and data security review system, under which data processing activities that affect or may affect national security shall be reviewed for national security. A decision on security review made in accordance with the law shall be final. Processors of important data shall establish a sound data security management system throughout the whole process, organize data security education and training, and take corresponding technical measures and other necessary measures to ensure

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data security, in accordance with the provisions of laws and regulations. To carry out data processing activities by making use of the Internet or any other information network, the aforesaid obligations for data security protection shall be performed on the basis of the graded protection system for cybersecurity. Provided that the national core data management system is violated, which endangers the sovereignty, security and development interests of PRC, the relevant competent authority will impose a fine of not less than RMB2 million but not more than RMB10 million, and may order suspension of the relevant business, stop the business for rectification, and revoke the relevant business permit or business license as the case may be; if a crime is constituted, criminal liability will be investigated in accordance with the law.

On November 14, 2021, the CAC released the Network Data Security Management Regulations (Draft for Comment) (the “Draft Regulations”) (《網絡數據安全管理條例(徵求意見稿)》). The Draft Regulations, among other things, stipulates that (i) data processors possess personal information of more than one million users seeking a public listing in a foreign country, and (ii) data processors seeking a public listing in Hong Kong that influence or may influence national security, must apply for a cybersecurity review, in accordance with the relevant stipulations of the State. On 28 December 2021, the CAC and other twelve PRC regulatory authorities jointly revised and promulgated the Cybersecurity Review Measures (《網絡安全審查辦法》), which came into effect on 15 February 2022, and the Measures for Cybersecurity Review (《網絡安全審查辦法》) which took effect on 1 June 2020 was abolished at the same time. The Cybersecurity Review Measures provides that, among others, (i) the purchase of cyber products and services by critical information infrastructure operators (the “CIIOs”) and the network platform operators (the “Network Platform Operators”) which engage in data processing activities that affects or may affect national security shall be subject to the cybersecurity review by the Cybersecurity Review Office (網絡安全審查辦公室), the department which is responsible for the implementation of cybersecurity review under the CAC; and (ii) the Network Platform Operators with personal information data of more than one million users that seek for listing in a foreign country are obliged to apply for a cybersecurity review by the Cybersecurity Review Office.

However, the Draft Regulations provide no further explanation or interpretation of “influence or may influence national security.” As advised by our PRC Legal Advisor, according to the National Security Law (國家安全法), national security refers to the condition in which the state power, sovereignty, unity and territorial integrity, people’s welfare, sustainable economic and social development and other vital interests of the State shall relatively face no danger or encounter no internal and external threats, as well as the capability to safeguard sustainable safety condition. The specific scope of what situations would be considered “influence or may influence national security” will be subject to the identification and interpretation of the PRC government authorities. At present, the Draft Regulations had only been released for consultation purposes, and this requirement is newly included in the Draft Regulations, as such there still remain uncertainties as to its final content, anticipated adoption or effective date, final interpretation and implementation, and other aspects.

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Based on the literal interpretation of the Draft Regulations, our PRC Legal Advisers are of the view that, given that (i) we are a provider of AI solutions, including our AI-empowered precision marketing services, for corporate users and our primary business is to provide privatization deployment solutions, in which we will not access any data owned or held by corporate users; (ii) for cloud-based subscriptions, we offer Sage Platform and other ready-to-use applications through public cloud services offered by third party vendors and we are only provided with the administration access which allows us to help users with coding and system integration upon users’ request for the sole purpose of assisting the users to utilize our solutions, and not in any way participating or assisting the corporate users with data processing activities, and we do not access or process any data of our users; (iii) our core technologies are sub-categories of machine learning and are embedded as operating modules (“operators”) in our AI developer suites, and we do not own, collect or process data of our users on our servers during the machine learning process, (iv) we mainly obtain personal information of our employees, business contacts, candidates who applied for our open positions and visitors with due legal basis; (v) we do not purchase or acquire in any other way any personal information, or carry out any other form of cooperation in respect of exchange, cleaning and processing of personal information, and neither do we process any important data based on the definition under the Draft Regulations, our business operations do not have a bearing on national security and would not likely to render the vital interests of the State with danger or encounter internal or external threats, and hence, if the Draft Regulations remains in its current form after its promulgation, it may be unlikely that we would be required to undergo a cybersecurity review for the proposed [REDACTED].

Up to the Latest Practicable Date, we had not been notified by any authorities of being classified as a data processor carrying out data processing activities that influence or may influence national security, neither had we been subject to any cybersecurity review, enquiry, investigation or notice by the CAC or any other authorities in connection with the proposed [REDACTED]. We and our PRC Legal Advisor are of the view that, assuming the Draft Regulations become effective in their current forms, they will not have a material adverse impact on our business, results of operations, or the proposed [REDACTED] on the basis that (i) as disclosed in “Business – Data Privacy and Security”, we have implemented comprehensive internal policies on protecting data privacy and security under the supervision of our Chief Architect, with the purpose to ensure data and information security and ensure compliance with all applicable laws and regulations; (ii) as of the Latest Practicable Date, we had not been subject to material fines, mandatory rectifications or other sanctions imposed by any government authorities in relation to data and cybersecurity; (iii) during the Track Record Period and as of the Latest Practicable Date, there had been no material incident of data or personal information leakage, infringement of data protection and privacy laws and regulations, and there had been no investigation or other legal proceeding, to the best knowledge of the Company, pending or threatened against our Group initiated by competent government authorities or third parties, that will materially and adversely affect our business operations; and (iv) we will continue to pay close attention to the legislative and regulatory developments in data security and comply with the latest regulatory requirements. We believe that we are compliant with the regulations and policies in effect issued by the CAC to date. Nevertheless, there remain uncertainties with respect to any future development of the relevant

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regulatory regime. There can be no assurance that the relevant authorities will not take a view that is contrary to or otherwise different from that of our PRC Legal Advisor above, and it is also possible that the PRC government authorities may require us to apply for the cybersecurity review for other reasons. In light of the above uncertainties, as of the Latest Practicable Date, we had not applied for such cybersecurity review. We will closely monitor the rule-making process and will assess and determine whether we are required to apply for the cybersecurity review when and once the Draft Regulations is formally promulgated.

REGULATIONS ON OVERSEAS LISTING

Recently, certain PRC regulatory authorities issued Opinion on Severely Punishing Illegal Activities in Securities Market (《關於依法從嚴打擊證券違法活動的意見》), which were available to the public on July 6, 2021, further emphasized to strengthen cross-border regulatory collaboration, to improve relevant laws and regulations on data security, cross-border data transmission, and confidential information management, and provided that efforts will be made to revise the regulations on strengthening the confidentiality and archive management relating to the offering and listing of securities abroad, to implement the responsibility on information security of companies listed in foreign countries, and to strengthen the standardized management of cross-border information provision mechanisms and procedures.

On December 24, 2021, the CSRC published the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)》), and Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《境內企業境外發行證券和上市備案管理辦法(徵求意見稿)》), or, collectively, the Draft Overseas Listing Regulations, which set out the new regulatory requirements and filing procedures for Chinese companies seeking direct or indirect listing in overseas markets. The Draft Overseas Listing Regulations, among others, stipulate that Chinese companies that seek to offer and list securities in overseas markets shall fulfill the filing procedures with and report relevant information to the CSRC, and that an initial filing shall be submitted within three (3) working days after the application for an initial public offering is submitted, and a second filing shall be submitted within three (3) working days after the listing is completed. Moreover, an overseas offering and listing is prohibited under circumstances if (i) it is prohibited by PRC laws, (ii) it may constitute a threat to or endanger national security as reviewed and determined by competent PRC authorities, (iii) it has material ownership disputes over equity, major assets, and core technology, (iv) in recent three years, the Chinese operating entities and their controlling shareholders and actual controllers have committed relevant prescribed criminal offenses or are currently under investigations for suspicion of criminal offenses or major violations, (v) the directors, supervisors, or senior executives have been subject to administrative punishment for severe violations, or are currently under investigations for suspicion of criminal offenses or major violations, or (vi) it has other circumstances as prescribed by the State Council.

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As advised by our PRC Legal Advisor, the Draft Overseas Listing Regulations were released only for soliciting public comment at this stage and their provisions and anticipated adoption or effective date are subject to changes, and thus their interpretation and implementation remain substantially uncertain. The Draft Overseas Listing Regulations are not clear on the exact criteria of qualified issuers who must complete the CSRC filing procedures after submitting the application for an initial public offering overseas, and are not clear on whether qualified issuers which have submitted the application for initial public offering overseas but have not yet completed the whole listing process shall be subject to the said CSRC filing procedures. Although according to the existing text of the Draft Overseas Listing Regulations, the proposed [REDACTED] may be subject to the newly-empowered regulatory scope of CSRC and the newly-enacted report and filing procedures for constituting an “direct overseas offering and listing by a PRC company”, we cannot predict the impact of the Draft Overseas Listing Regulations on the proposed [REDACTED], if any, at this stage, and we will closely monitor and assess any development in the rule-making process.

Notwithstanding the foregoing, we have obtained the Reply Approval in Respect of Beijing Fourth Paradigm Technology Co., Ltd. [REDACTED] of [REDACTED] Foreign Shares (Zhengjianxuke [2021] No. 3587) (《關於核准北京第四範式智能技術股份有限公司[REDACTED]境外[REDACTED]外資股的批覆》(證監許可[2021]3587號)) by the CSRC in respect of the proposed [REDACTED] on November 10, 2021, in accordance with the Securities Law of the People’s Republic of China (中華人民共和國證券法) and the Special Regulations of the State Council concerning Floating and Listing of Shares Overseas by Joint Stock Limited Company (國務院關於股份有限公司境外募集股份及上市的特別規定).

Even if we endeavor to comply with relevant laws and regulations, we may not always be able to do so due to a lack of detailed implementation rules by relevant government authorities. In addition, some provisions under certain laws and regulations still remain principle and lack specific interpretation up to data especially to a specific case scenario. These uncertainties may impede our ability to enforce the contracts we have entered into with our business partners, customers and suppliers. We are also proactively following up changes in laws and regulatory development and will carry out relevant work to ensure compliance with laws and regulations with the aid of external counsels.

REGULATIONS ON INTELLECTUAL PROPERTY RIGHTS

Patent

In accordance with the Patent Law of the People’s Republic of China (中華人民共和國專利法) which was promulgated by the Standing Committee of the National People’s Congress on March 12, 1984 and latest amended on October 17, 2020, with the latest revision effective on June 1, 2021, the Implementation Regulations for the Patent Law of the People’s Republic of China (中華人民共和國專利法實施細則) which was promulgated by the State Council on June 15, 2001 and latest amended on January 9, 2010, with the latest revision effective on February 1, 2010, and the Public Announcement on Measures on Filing of Patent Licensing Contracts (專利實施許可合同備案辦法) which was promulgated by the State Intellectual

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Property Office on June 27, 2011 and came into effect on August 1, 2011, patent in PRC shall be categorized as invention, utility model and design. The duration of patent rights for an invention shall be 20 years, the duration of patent rights for a utility model shall be 10 years and the duration of patent rights for a design shall be 15 years, commencing from the filing date. Any organization or individual proposing to implement the patent of others shall enter into a licensing contract with the patentee for implementation and pay royalties to the patentee. And the State Intellectual Property Office shall be responsible for filing of patent licensing contracts nationwide. The parties concerned shall complete filing formalities within three months from the effective date of a patent licensing contract.

Trademark

In accordance with the Trademark Law of the People’s Republic of China (中華人民共和國商標法) which was promulgated by Standing Committee of the National People’s Congress on August 23, 1982, and was latest amended on April 23, 2019, with the latest revision effective on November 1, 2019, and the Implementation Regulations for the Trademark Law of the People’s Republic of China (中華人民共和國商標法實施條例) which was promulgated by the State Council on August 3, 2002 and was latest amended on April 29, 2014, with the latest revision effective on May 1, 2014, trademarks approved and registered by the trademark bureau are registered trademarks, including commodity trademarks, service marks and collective trademarks, certification marks; trademark registrants are entitled to exclusive rights to use trademark and are protected by the law. A registered trademark shall be valid for 10 years, commencing from the date of registration. Use of a trademark identical or similar to a registered trademark on the same type of commodities without licensing by the trademark registrant shall be deemed as infringement of exclusive rights to use registered trademarks.

Domain Name

In accordance with the Administrative Measures on Internet Domain Names (互聯網域名管理辦法) which was promulgated by the Ministry of Industry and Information Technology of the People’s Republic of China on August 24, 2017 and came into effect on November 1, 2017, the Implementing Rules for the Registration of National Top-level Domain Names (國家頂級域名註冊實施細則) and Procedural Rules for Resolution of Disputes over National Top-level Domain Names (國家頂級域名爭議解決程序規則) which were promulgated by China Internet Network Information Center on June 18, 2019 and came into effect on the same date, the domain name registration services shall in principle implement “first apply first register”; where the corresponding detailed rules for domain name registration stipulate otherwise, such provisions shall prevail. The applicant shall be deemed as domain name holder via registration. The domain name disputes shall be accepted and solved by a domain name dispute resolution body as recognized by the China Internet Network Information Center.

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In accordance with the Notice of the Ministry of Industry and Information Technology on Regulating the Use of Domain Names in Providing Internet-based Information Services (工業和信息化部關於規範互聯網信息服務使用域名的通知) (hereinafter referred to as “Notice”), which was promulgated by the Ministry of Industry and Information Technology of the People’s Republic of China on November 27, 2017 and came into effect on January 1, 2018, the Internet access service provider concerned shall check the real identity information of the domain name registrant via the Record-filing System, and shall not provide access services if the Internet-based information service provider fails to provide real identity information or the identity information provided is inaccurate or incomplete, with the exception of domain names that have been filed for record with the Record-filing System prior to the effectiveness of this Notice.

Copyright

In accordance with the Copyright Law of the People’s Republic China (中華人民共和國著作權法) which was promulgated by Standing Committee of the National People’s Congress on September 7, 1990 and latest amended on November 11, 2020, with latest revision effective on June 1, 2021, Chinese citizens, legal persons or organizations without legal personality enjoy copyright over their works, whether published or not, including written works; oral works; musical, dramatic, opera, dance, acrobatic artistic works; fine arts, architectural works; photographic works; audio-visual works; graphic works and model works, such as engineering design plan, product design plan, map, schematic diagram, etc.; computer software and any other intellectual achievements which comply with the characteristics of the works. Copyright shall include the following personal rights and property rights: publication right, right of authorship, right of revision, right to preserve the integrity of work, reproduction right, distribution right, rental right, exhibition right, performance right, screening right, broadcasting right, information network transmission right, filming right, adaptation right, translation right, compilation right, and any other rights enjoyed by a copyright holder.

REGULATIONS IN RELATION TO TAX

Enterprise Income Tax

In accordance with the Enterprise Income Tax Law of the People’s Republic of China (中華人民共和國企業所得稅法) which was promulgated by the Standing Committee of the National People’s Congress on March 16, 2007, and was latest amended on December 29, 2018, with the latest revision effective on the same date and the Implementation Regulations for the Enterprise Income Tax Law of the People’s Republic of China (中華人民共和國企業所得稅法實施條例) which was promulgated by the State Council on December 6, 2007, and was latest amended on April 23, 2019, with the latest revision effective on the same date, a uniform income tax rate of 25% will be applied to resident enterprises and non-resident enterprises that have established institutions and premises in China. Besides enterprises established within the PRC, enterprises established in accordance with the laws of other judicial districts whose “de facto management bodies” are within the PRC are considered “resident enterprises” and subject to the uniform 25% enterprise income tax rate for their income derived from both inside and outside the PRC. Corporate income tax for key advanced and new technology enterprises supported by PRC shall be at a reduced tax rate of 15%.

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In accordance with the Administrative Measures on Accreditation of High-tech Enterprises (高新技術企業認定管理辦法) which was promulgated by the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation on April 14, 2008 and amended on January 29, 2016 and came into effect on January 1, 2016, high-tech enterprises referred to in these Measures shall mean resident enterprises registered in China (excluding Hong Kong, Macau and Taiwan) which are continuously engaging in research and development and technology commercialization within the realm of the Regions of Advanced Technologies Strongly Supported by PRC, forming the core independent intellectual property of the enterprise, and carrying out business activities on such basis, which accredited pursuant to these Measures may declare and claim tax incentives pursuant to the Enterprise Income Tax Law (中華人民共和國企業所得稅法) and its Implementation Regulations, the Administrative Law of the People’s Republic of China on the Levying and Collection of Taxes, the Implementation Regulations for the Law of the People’s Republic of China on Administration of Tax Collection (中華人民共和國稅收徵收管理法實施細則) etc. Upon obtaining the qualification as a high-tech enterprise, the enterprise shall complete tax reduction and exemption formalities with the tax authorities in charge and the qualifications of an accredited high-tech enterprise shall be valid for three years from the date of issuance of the certificate.

Value-added Tax

In accordance with the Provisional Regulations of the People’s Republic of China on Value-added Tax (中華人民共和國增值稅暫行條例) which was promulgated by the State Council on December 13, 1993, and was latest amended on November 19, 2017, with the latest revision effective on the same date, the Detailed Rules for the Implementation Rules for the Provisional Regulations the People’s Republic of China on Value-added Tax (中華人民共和國增值稅暫行條例實施細則) which was promulgated by the Ministry of Finance on December 25, 1993, and was latest effective on November 1, 2011, In accordance with the Decisions on Abolishing the PRC Provisional Regulations on Business Tax and Amending the PRC Provisional Regulations on Value-Added Tax (《國務院關於廢止<中華人民共和國營業稅暫行條例>和修改<中華人民共和國增值稅暫行條例>的決定》) which was promulgated by the State Council and effective on November 19, 2017 and the Notice of the Ministry of Finance and the State Administration of Taxation on the Adjustment to VAT Rates (財政部、國家稅務總局關於調整增值稅稅率的通知) which was promulgated by the Ministry of Finance and the State Administration of Taxation on April 4, 2018 and came into effect on May 1, 2018, entities and individuals selling goods, services and intangible assets in the People’s Republic of China are VAT taxpayers and shall pay value-added tax. Taxpayers selling services and intangible assets are subject to a tax rate of 6%, except in particular circumstances. If a taxpayer is engaged in sale subject to VAT at the previously applicable rate of 17%, the tax rate is reduced to 16%. In accordance with the Announcement on Policies for Deepening the VAT Reform which was issued by the Ministry of Finance, State Taxation Administration and General Administration of Customs (《關於深化增值稅改革有關政策的公告》) on March 20, 2019 and came into effect on April 1, 2019. If a general VAT taxpayer is engaged in a VAT taxable sale or imports goods at the previously applicable rate of 16%, the tax rate is reduced to 13%.

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In accordance with the Notice of Ministry of Finance and State Administration of Taxation on Value-added Tax Policies for Software Products (關於軟件產品增值稅政策的通知) which was promulgated by the Ministry of Finance and the State Administration of Taxation on October 13, 2011 and came into effect on January 1, 2011, a value-added tax general taxpayer selling software products developed and produced by itself shall be subject to levying and collection of value-added tax at the tax rate of 17%, and the policy of forthwith levy and forthwith refund shall be implemented for the portion of value-added tax actually paid which exceeds 3%.

Urban Maintenance and Construction Tax

In accordance with Urban Maintenance and Construction Tax Law of People’s Republic of China (中華人民共和國城市維護建設稅法) which was promulgated by Standing Committee of National Peoples Congress on August 11, 2020 and came effect on September 1, 2021 and the Notice of the State Council on Harmonizing the Urban Maintenance and Construction Tax and Educational Surcharges for Chinese and Foreign-funded Enterprises and Individuals (國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知) which was promulgated by the State Council on October 18, 2010 and latest effective on December 1, 2010, entities and individuals which are subject to consumption tax, VAT and business tax shall pay urban maintenance and construction tax. The tax rate is 7% for a taxpayer who is domiciled in a downtown area, and 5% for a taxpayer who is domiciled in a county or town, and 1% for a taxpayer who is domiciled outside a downtown area, county or town.

REGULATIONS ON LABOR

Labor Relations

The Labor Contract Law of the People’s Republic of China (中華人民共和國勞動合同法) which was promulgated by Standing Committee of the National People’s Congress on June 29, 2007, and was latest amended on December 28, 2012, with the latest revision effective on July 1, 2013, governs the establishment of labor relationships between enterprises, individual economic organizations, private non-enterprise entities etc., in the PRC and their workers and the conclusion, performance, variation, rescission or termination of labor contracts, specifies relevant detailed requirements on terms and contents of labor contracts signed between the parties, and stipulates the maximum working hours per day and week and the monthly minimum wage.

Social Insurance and Housing Provident Fund

In accordance with the Social Insurance Law of the People’s Republic of China (中華人民共和國社會保險法) which was promulgated by Standing Committee of the National People’s Congress on October 28, 2010 and was latest amended on December 29, 2018, with the latest revision effective on the same date, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, and

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maternity insurance. Employers failed to promptly contribute social security premiums in full amount shall be ordered by the social security premium collection agency to make or supplement contributions within a stipulated period, and shall be subject to a late payment fine computed from the due date at the rate of 0.05% per day; where payment is not made within the stipulated period, the relevant administrative authorities shall impose a fine ranging from one to three times the amount of the amount in arrears.

In accordance with the Regulations on the Administration of Housing Provident Fund (住房公積金管理條例) which was promulgated by the State Council on April 3, 1999, and was latest amended on March 24, 2019, with the latest revision effective on the same date, an employer shall make registration of contribution to the housing provident fund with the housing provident fund management center, and go through the formalities of opening housing provident fund accounts on behalf of its employees. And an employer fails to undertake contribution registration of housing provident fund or fails to go through the formalities of opening housing provident fund accounts for its employees, the housing provident fund management center shall order it to go through the formalities within a prescribed time limit; where failing to do so at the expiration of the time limit, a fine of not less than RMB10,000 nor more than RMB50,000 shall be imposed. An employer is overdue in the contribution of, or underpays, the housing provident fund, the housing provident fund management center shall order it to make the contribution within a prescribed time limit; where the contribution has not been made after the expiration of the time limit, an application may be made to a people’s court for compulsory enforcement.

REGULATIONS ON FOREIGN EXCHANGE ADMINISTRATION

General Foreign Exchange Administration

The Foreign Exchange Control Regulations of the People’s Republic of China (中華人民共和國外匯管理條例), promulgated by the State Council on January 29, 1996, and latest amended on August 5, 2008, with the latest revision effective on the same date, is a fundamental legal basis for foreign exchange supervision and regulation by relevant authorities in PRC, according to which, RMB may be freely converted into other currencies for current account items (such as foreign exchange transactions in relation to commodity, trade and service, and dividend distribution), based on real and lawful transactions; but capital account items (such as share capital transfer, direct investment, securities investment, derivatives or loan) unless it is approved by the relevant foreign exchange administration department and it has completed the pre registration with the relevant foreign exchange administration department.

In accordance with the Circular of SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》) (hereinafter referred to as “Circular 59”) was promulgated by SAFE on November 19, 2012, became effective on December 17, 2012, and was further amended on May 4, 2015, approval is not required for the opening of an account

REGULATORY OVERVIEW

entry in foreign exchange accounts under direct investment. Circular 59 also simplifies the capital verification and confirmation formalities for foreign invested enterprises (“FIEs”); the foreign capital and foreign exchange registration formalities required for the foreign investors to acquire equities from Chinese party and further improve the administration on exchange settlement of FIEs.

The Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知) (hereinafter referred to as “Circular 19”) was promulgated by SAFE on March 30, 2015, came into effect on June 1, 2015 partially repealed on December 30, 2019 and partially amended by the Notice of the State Administration of Foreign Exchange of Policies for Reforming and Regulating the Control over Foreign Exchange Settlement under the Capital Account (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知) promulgated by SAFE on June 9, 2016 and superseded the Notice from the State Administration of Foreign Exchange on Reforming the Administration Method of Settlement of Foreign Exchange Capitals of Foreign-invested Enterprises (hereinafter referred to as “Circular 142”) from the effective date. Circular 19 specifies that foreign exchange settlement by foreign-invested enterprise is subject to supervision under foreign exchange settlement policies, and cancels certain foreign exchange restrictions under Circular 142. However, Circular 19 restates that the use of capital of foreign invested enterprises should follow the principle of truthfulness and self-use within the business scope of a enterprise.

In accordance with the Notice from the State Administration of Foreign Exchange on Reforming and Regulating the Policies of Administration of Foreign Exchange Settlement for Capital Items (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知) (hereinafter referred to as “Circular 16”) which was promulgated by the State Administration of Foreign Exchange on June 9, 2016 and came into effect on the same date, an enterprise registered in China may, at its sole discretion, convert its foreign debts in a foreign currency to RMB. Circular 16 provides a unified standard for foreign exchange under capital items (including but not limited to foreign currency capital and foreign debt) which may be convertible at the sole discretion of the enterprise. Such standard is applicable to all enterprises registered in the PRC. In addition, Circular 16 restates that, unless otherwise specified, an enterprise shall not directly or indirectly use RMB funds obtained as a result of conversion of foreign currency funds, for purposes outside the business scope, or for investments wealth management other than securities investment or capital protected products of banks in China. Moreover, except within the business scope, RMB funds obtained as a result of conversion shall not be used as loans to non-related companies; save for investment in a real estate enterprise, RMB funds obtained as a result of conversion shall not be used for construction or purchase of real estate which will not be used by the enterprise.

On October 23, 2019, the State Administration of Foreign Exchange released the Notice of the State Administration of Foreign Exchange on Further Promoting the Facilitation of Cross-border Trade and Investment (國家外匯管理局關於進一步促進跨境貿易投資便利化的通知), according to which, besides foreign-invested enterprises engaged in investment business, non-investment foreign-invested enterprises are also permitted to make domestic

REGULATORY OVERVIEW

equity investments with their capital funds in accordance with the laws provided that such investments do not violate the Special Administrative Measures (Negative List) for Foreign Investment Access (外商投資准入特別管理措施(負面清單)) (hereinafter referred to as “Negative List”) and the target investment projects are genuine and in compliance with laws. According to the Notice of the SAFE on Optimizing Foreign Exchange Administration to Support the Development of Foreign-related Business (國家外匯管理局關於優化外匯管理支持涉外業務發展的通知), issued by the State Administration of Foreign Exchange on April 10, 2020, eligible enterprises are allowed to make domestic payments by using their capital funds, foreign credits and the income under capital accounts of overseas listing, without submitting the evidentiary materials concerning authenticity of such capital for banks in advance; provided that their capital use is authentic and in compliance with administrative regulations on the use of income under capital accounts. The bank in charge shall follow the principle of prudential business development to manage and control relevant business risks, and conduct post spot checking on the facilitation of payment for the income under capital accounts in accordance with relevant requirements.

Equity Incentive Plan

In accordance with the Notice of the State Administration of Foreign Exchange on the Relevant Issues Concerning the Administration of Foreign Exchange for Domestic Individuals’ Participation in Equity Incentive Programs of Overseas Listed Companies (國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知) which was promulgated by the State Administration of Foreign Exchange on February 15, 2012 and came into effect on the same date, a PRC citizen who participates in the equity incentive plan of an overseas listed company or an individual who participates in such plan and has resided in China for a consecutive period of not less than one year, shall go through relevant procedures with the State Administration of Foreign Exchange or its local counterpart, through a qualified PRC agent (which could be a PRC subsidiary of the overseas listed company), save for a few exceptions. A signing participant shall appoint an overseas trustee to handle matters in relation to their exercise of share options, purchase and sale of corresponding shares or interests, and transfer of funds. In addition, in case of any major change of the equity incentive plan, the PRC agent or overseas trustee or other major changes, the PRC agent shall register the change with the State Administration of Foreign Exchange in respect of the equity incentive plan. The PRC agent shall, on behalf of a PRC resident who has the right to exercise the employee share option, apply to the State Administration of Foreign Exchange or its local counterpart for an annual quota for foreign exchange payment with respect to foreign currency payment in relation to exercise by the PRC resident of the employee share option. Foreign exchange earnings obtained by a PRC resident from sale of shares according to the equity incentive plan and the dividend distributed by an overseas listed company shall be remitted to a bank account opened by the PRC agent in China prior to distribution to the PRC resident.

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DIVIDEND DISTRIBUTION

In accordance with the Company Law of the People’s Republic of China (中華人民共和國公司法), which was promulgated by the Standing Committee of the National People’s Congress on December 29, 1993, and was amended on October 26, 2018, and the Foreign Investment Law of the People’s Republic of China (中華人民共和國外商投資法) (hereinafter referred to as “Foreign Investment Law”), which was promulgated by the National People’s Congress of the People’s Republic of China on March 15, 2019 and came into effect on January 1, 2020, foreign-invested enterprises in the PRC may pay dividends only out of their accumulated profit, if any, determined in accordance with PRC accounting standards and regulations. A PRC company, including foreign-invested enterprise, is required to set aside as general reserves at least 10% of its after-tax profit, until the cumulative amount of such reserves reaches 50% of its registered capital unless the provisions of laws regarding foreign investment otherwise provided, and shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

REGULATIONS ON ESTABLISHMENT OF COMPANIES AND FOREIGN INVESTMENT

In accordance with the Foreign Investment Law and the Implementation Regulations for the Foreign Investment Law of the People’s Republic of China (中華人民共和國外商投資法實施條例) (hereinafter referred to as “Regulations”), which was promulgated by the State Council on December 26, 2019 and came into effect on January 1, 2020, any discrepancy between the Foreign Investment Law and these Regulations and the provisions on foreign investments formulated before January 1, 2020, the provisions of the Foreign Investment Law and these Regulations shall prevail. Investments by foreign investors in fields for which investment is restricted by the Negative List shall comply with the restrictive admission special administrative measures such as equity requirements, senior management personnel requirements stipulated by the Negative List.

In accordance with the Measures on Reporting of Foreign Investment Information (外商投資信息報告辦法), which was promulgated by the Ministry of Commerce and State Administration for Market Regulation on December 30, 2019 and came into effect on January 1, 2020, foreign investors or foreign investment enterprises shall submit investment information to the commerce administrative authorities through the Enterprise Registration System and the National Enterprise Credit Information Publicity System. In accordance with the Measures for the Security Review of Foreign Investments (外商投資安全審查辦法), which was promulgated by the National Development and Reform Commission and Ministry of Commerce on December 19, 2020 and came into effect on January 18, 2021, the office of the working mechanism for the security review of foreign investments is set up under the National Development and Reform Commission, which is led by the National Development and Reform Commission and the Ministry of Commerce to undertake the routine work of the security review of foreign investments.

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REGULATIONS RELATED TO THE “FULL CIRCULATION” OF H-SHARE

In accordance with the Guidelines for the Application by H-share Companies for “Full Circulation” of Unlisted Shares (H股公司境內未上市股份申請“全流通”業務指引) which was promulgated by the CSRC on 14 November 2019 and came into effect on the same date, the term “full circulation” means the circulation of domestically unlisted shares (including domestically unlisted shares held by domestic shareholders prior to the listing abroad, additional domestically unlisted shares issued domestically after listing abroad and unlisted shares held by holders of foreign shares) of H-share companies on the Hong Kong Stock Exchange. On the premise of complying with relevant laws and regulations as well as policies governing state-owned asset management, foreign investment and industrial supervision, the shareholders of domestically unlisted shares may determine the number and proportion of shares under application for circulation through negotiation at their discretion and entrust a H-share company to file an application for “full circulation”. H-share companies applying for “full circulation” shall submit an application to the CSRC under the administrative licensing procedures for “examination and approval for overseas public offering and listing of shares by companies limited by shares (including issuance of additional shares)”. H-share companies may apply for “full circulation” separately or at the time of applying for overseas refinancing. Any domestic company listed by shares that has not been listed may file an application for “full circulation” at the time of applying for initial public offering and listing abroad. After the application for “full circulation” is approved by the CSRC, the holders of domestically unlisted shares shall go through the procedures for re-registration of shares as well as the procedures for registration and listing of shares in accordance with the relevant provisions of the Hong Kong market. After the domestically unlisted shares are listed for circulation on the Hong Kong Stock Exchange, they shall not be transferred back to the Mainland China. A shareholder of domestically unlisted shares may reduce or increase its holding of the shares involved that are circulating on the Hong Kong Stock Exchange according to relevant business rules. H share companies shall submit a report on the relevant information to the CSRC within 15 days from completion of re-registration of the shares involved in the application to CSDC.

In accordance with the Notice on Promulgation of the Implementing Rules for “Full Circulation” of H-shares (關於發佈《H股“全流通”業務實施細則》的通知) which was promulgated by CSDC and Shenzhen Stock Exchange on 31 December 2019 and came into effect on the same date, it shall apply to the relevant businesses involved in “full circulation” of H-shares, such as cross-border re-registration, custodian and maintenance of holding details, entrustment of transactions and order routing, settlement, management of clearing participants, services of nominee holders etc. Upon completion of information disclosure by a H-share listed company approved by the CSRC to participate in “full circulation” of H-shares, such company shall register anew its fully tradable H-shares free from pledge, freezing, restriction of transfer and other restrictive status with the Hong Kong share registration authorities to have them become shares that can be listed and circulated on the Hong Kong Stock Exchange. The relevant securities shall be deposited centrally with CSDC in China. CSDC, as the nominee of the aforesaid securities, shall handle the business such as the depository and maintenance of holding details as well as cross-border clearing and settlement involved in the “full circulation” of H-shares, and provide services of nominee for investors. H-share listed companies shall

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obtain the authorization from investors and select a domestic securities company to participate in the “full circulation” of H-shares. Investors submit the trading orders for the “full circulation” of H-shares through a domestic securities company. The domestic securities company shall select a Hong Kong securities company through which investors’ trading instructions shall be reported to the Hong Kong Stock Exchange for trading. After transactions are concluded, CSDC and China Securities Depository and Clearing (Hong Kong) Company Limited shall handle cross-border clearing and settlement of relevant shares and funds. The settlement currency of H-share “full circulation” transaction business is Hong Kong dollars. Where an H-share listed company entrusts CSDC to distribute cash dividends, it shall file an application with CSDC. The H-share listed company, when distributing cash dividends, may claim the details of the shares held by relevant investors on the equity registration date for cash dividends from CSDC. If an investor obtains “fully tradable” non-H-shares listed on the Hong Kong Stock Exchange due to the equity distribution or conversion of H-shares under full circulation, the investor may sell but cannot purchase such securities; if the investor obtains the right to subscribe for shares listed on the Hong Kong Stock Exchange and such right is listed on the Hong Kong Stock Exchange, the investor may sell but shall not exercise such right.

In accordance with the Notice on the Guidelines to the Program for “Full Circulation” of H-shares (關於發佈《H股“全流通”業務指南》的通知) which was promulgated by CSDC on 7 February 2020 and came into effect on the same date, it specified the business preparation, account arrangement, cross-border share transfer registration and overseas centralized custody, etc. And China Securities Depository and Clearing (Hong Kong) Company Limited also promulgated the Guide to the Program for Full Circulation of H-shares (中國證券登記結算(香港)有限公司H股“全流通”業務指南) to specify the relevant escrow, custody, agent service of China Securities Depository and Clearing (Hong Kong) Company Limited, arrangement for settlement and delivery and other relevant matters.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

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We are a leader in enterprise AI. We offer platform-centric AI solutions that can be rapidly deployed by enterprises on a large scale to uncover hidden patterns in data and comprehensively enhance decision-making capabilities.

Our Group was founded in September 2014. The predecessor of our Company, Beijing Fourth Paradigm Technology, was established as a limited liability company under the laws of the PRC by Ms. Wu, the spouse of Dr. Dai, as the sole equity interest holder on September 17, 2014. Ms. Wu has relevant experience in AI technology industries. Prior to being the equity interest holder of our Company upon its establishment, Ms. Wu was the senior investment manager at Baidu for approximately five years. Ms. Wu has been employed as a venture partner of Sequoia Capital China since June 2018, who is responsible for among others, (a) providing assistance in sourcing investment opportunities, and execution to completion after the investment committee of Sequoia Capital China approves of such investment opportunities, (b) monitoring the post-investment performance of portfolio companies and (c) offering advice to the investment team of Sequoia Capital China with investment advice in technology-related sectors. Ms. Wu does not have any shareholding or partnership interest in Sequoia Capital China Venture, Sequoia Hanchen, Sequoia Mingde and Sequoia Zhisheng and she has never been and will not be involved in making any decision in respect of the investment in the Company by any entity of Sequoia Capital China. During the Track Record Period and as of the Latest Practicable Date, Ms. Wu has not been involved in the day-to-day management and operation of the Group. Dr. Dai, Chairman of our Board, an executive Director, Chief Executive Officer and General Manager of the Company, joined our Group as Chief Executive Officer in January 2015, became a shareholder of Beijing Fourth Paradigm Technology, our predecessor, in May 2015 and Chairman of the Board in August 2015. For details of the experience of Dr. Dai, please see the section headed “Directors, Supervisors and Senior Management” in this Document. We were converted into a joint stock limited company under the laws of the PRC on July 9, 2021.

BUSINESS DEVELOPMENT MILESTONES

The following table summarizes the key business development milestones since our inception:

Time	Milestone
2014	In September, Beijing Fourth Paradigm Technology, being our predecessor, was established in the PRC
	In December, we launched the first commercialized product (Sage Platform version 1.0) using the framework of AutoML, one of our core technologies

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Time	Milestone
2015	We commenced serving users in the finance sector by offering application development and other services to develop intelligent product recommendation applications
2016	We started offering Sage Platform version 2.0, an end-to-end AI application development platform
2018	We commenced serving users in the retail sector by offering Sage Platform and applications to develop intelligent menu recommendation applications We started offering Sage Platform version 3.0, an end-to-end AI application development platform
2019	We commenced serving users in energy sector by offering application development and other services to develop intelligent reservoir identification applications In June, we launched SageOne, our software-defined “All-in-One” solutions with pre-built Sage Platform and applications on servers and other related hardware
2020	In February, Sage Platform was awarded ePrivacysealEU, a certification demonstrating our commitment to compliance with the European Union’s General Data Protection Regulation (GDPR) In March, AutoML, one of our core AI technologies, was selected into Gartner’s report on Top 10 Strategic Technology Trends in 2020 In August, we launched Sage AIOS, an AI operating system featuring user-friendly interface, standardized data processing, automated resource management and allocation and fully compatible middleware that are comparable to personal computer operating system In November, we were selected as a global representative corporation in Gartner’s Emerging Technologies and Trends Impact Radar We commenced serving users in manufacturing sector by offering Sage Platform and applications to improve the performance of their storage systems
2021	In June, we launched our enterprise-level AI app store, which contains a cluster of applications on our AI operating system using our algorithms and standards, and OpenMLDB, an open-source database designed and optimized to enable data correctness and efficiency for machine learning driven applications

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

OUR PRINCIPAL SUBSIDIARIES

The place of incorporation, date of incorporation and commencement of business, registered or issued capital, and principal business activities of each of our principal subsidiaries that made a material contribution to our results of operation or are regarded as otherwise significant to our business operations during the Track Record Period are shown below, all of which were incorporated in the PRC:

Name	Date of incorporation and commencement of business	Principal business activities
4Paradigm Technology	September 29, 2016	Investment holding and investment activities
Shanghai Shishuo	April 1, 2017	Sales of AI platform and provision of AI related services
4Paradigm Beijing	May 12, 2015	Sales of AI platform and provision of AI related services
4Paradigm Shenzhen	March 11, 2019	Sales of AI platform and provision of AI related services
Guangzhou Jianxin	April 6, 2005	Provision of intelligent platform and solutions in energy and power industry
Ideal Technology	April 17, 2000	Provision of IT operation management products and solutions

CORPORATE DEVELOPMENT AND MAJOR SHAREHOLDING CHANGES

(1) Establishment of Beijing Fourth Paradigm Technology

On September 17, 2014, our predecessor Beijing Fourth Paradigm Technology was established as a limited liability company under the laws of the PRC, with an initial registered capital of RMB5,000,000. Ms. Wu was the sole equity interest holder at the time of establishment.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

On May 15, 2015, Beijing Fourth Paradigm Technology increased its registered share capital to RMB10,204,100. The shareholding structure of Beijing Fourth Paradigm Technology upon such increase is set forth in the table below:

Shareholders	Registered capital subscribed for (RMB)	Corresponding equity interest in our Company (%)
Dr. Dai	5,204,100	51.0001
Ms. Wu	5,000,000	48.9999
Total	10,204,100	100.00

(2) [REDACTED] Investments

From August 2015 to June 2021, we have entered into several rounds of [REDACTED] financing agreements with our [REDACTED] Investors. For further details, please refer to the paragraphs headed “– [REDACTED] Investments” in this section.

Our PRC Legal Advisor has confirmed that, all the equity interest transfers and capital increases as described in “– [REDACTED] Investments” were properly and legally completed and all necessary approvals, filings and registrations from the relevant PRC authorities have been obtained and completed.

(3) Equity interest transfer in May 2018

On May 1, 2018, Ms. Wu entered into an equity interest transfer agreement with Paradigm Investment, pursuant to which Ms. Wu transferred her 19.42% equity interest in Beijing Fourth Paradigm Technology to Paradigm Investment, our Employee Incentive Platform, at a nominal consideration of RMB1. The nominal consideration for the transfer was determined between the parties taking into account that the transfer was to establish an employee incentive platform and with reference to the fact that the registered capital had not been paid up by Ms. Wu at the time of the transfer. Upon completion of the equity interest transfer on June 15, 2018, Ms. Wu and Paradigm Investment held 11.24% and 19.42% equity interest in Beijing Fourth Paradigm Technology, respectively.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

(4) Equity interest transfer in April 2021

On April 28, 2021, Ms. Wu entered into an equity interest transfer agreement with Dr. Dai, pursuant to which Ms. Wu transferred her 8.11% equity interest in Beijing Fourth Paradigm Technology to Dr. Dai at nil consideration. The nil consideration for the transfer was determined between the parties taking into account that the transfer was a familial arrangement and with reference to the fact that the registered capital had not been paid up by Ms. Wu at the time of transfer. Upon completion of the equity interest transfer on April 29, 2021, Dr. Dai held 27.12% equity interest in Beijing Fourth Paradigm Technology and Ms. Wu ceased to hold any direct equity interest in Beijing Fourth Paradigm Technology.

(5) Equity interest transfer in May 2021

To recognise the vested share incentive to our former employees, Paradigm Investment entered into an equity interest transfer agreement with Paradigm Yinyuan (the limited partnership interest of which was mainly held by our former employees via other partnerships at the time of transfer) on May 24, 2021, pursuant to which Paradigm Investment transferred its 2.84% equity interest in Beijing Fourth Paradigm Technology to Paradigm Yinyuan at nil consideration, with reference to the fact that the registered capital had not been paid up at the time of transfer. Both general partners of Paradigm Investment and Paradigm Yinyuan are Beijing New Wisdom. Upon completion of the equity interest transfer on May 25, 2021, Paradigm Yinyuan held 2.84% equity interest in Beijing Fourth Paradigm Technology.

The share incentives were vested through the limited partnership interests of Paradigm Yinyuan indirectly held by 76 former employees who are Independent Third Parties and Dr. Yang Qiang, our non-executive Director and former chief science consultant of the Company who has been providing us with strategic advice and guidance on product and technology research and development since November 2014 till now. Given that it has always been the intention of our Group that Dr. Yang’s role in the Group is to provide his valuable advice and insight on product and technology from advisory perspective, which he has been already performing such function in the capacity as a Director after his directorship appointment in November 2016, our Company was of the view that it was unnecessary for Dr. Yang to provide such advice with another title of chief science consultant. Therefore, after review and streamline of our Group’s operation and corporate governance structure, our Group and Dr. Yang agreed to terminate title of Dr. Yang as the chief science consultant in the Company while he remains as our Director to continue providing advice to our Group. Since there is no material change in the involvement and nature of advice and guidance provided by Dr. Yang to our Group as a result of the change in title, there is no material impact on our Group’s operations, financial performance and strategic development after Dr. Yang’s cessation as the chief science consultant of the Company.

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Among the 76 former employees, 44, 26 and 6 individuals were involved in research and development, sales and marketing, and general and administration, respectively, immediately before their departure from the Group. These 76 former employees resigned from the Group on their own accord in pursuit of their career development and there is no disagreement of these former employees with the Group in respect of their resignation. According to our employees manual and the employment agreements signed with these former employees, our Group as the employer has the legal ownership of the intellectual property rights developed by these former employees during performance of the tasks we assigned to them or if they utilize the resources or technology provided by us to develop the relevant intellectual property rights in the course of their employment or within one year after their departure from our Group.

(6) Conversion into a joint stock limited company

On June 23, 2021, our Board passed resolutions approving, among other matters, the conversion of our Company from a limited liability company into a joint stock limited company and the change of name of our Company to Beijing Fourth Paradigm Technology Co., Ltd.* (北京第四範式智能技術股份有限公司). Pursuant to the promoters’ agreement dated July 1, 2021, entered into by all the then Shareholders, all promoters approved the conversion of the net assets value of our Company as of May 31, 2021 into 400,000,000 Shares of our Company, with the remaining RMB554,290,774.33 in net assets included as capital reserves of the Company.

On July 7, 2021, our Company convened a general meeting, and passed related resolutions approving the conversion of our Company into a joint stock limited company, articles of association and relevant procedures. Upon completion of the conversion, the registered capital of our Company became RMB400,000,000 divided into 400,000,000 Shares with a nominal value of RMB1.00 each, which were subscribed by all the then Shareholders in proportion to their respective equity interests in our Company before the conversion. The conversion was completed on July 9, 2021 when our Company obtained a new business license.

REASONS FOR THE [REDACTED]

Our Company is seeking a [REDACTED] of its H Shares on the Stock Exchange in order to provide further capital for the development and expansion of our Company’s business, to strengthen our Company’s working capital and to further raise our business profile and global presence. For further details of our future plans, please refer to the section headed “Future Plans and Use of [REDACTED]” of this Document.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

MAJOR ACQUISITIONS AND INVESTMENTS

Acquisition of Guangzhou Jianxin

In order to strengthen our business coverage in the energy and electric power industry and facilitate the industry’s AI transformation, 4Paradigm Beijing entered into share purchase agreements with ten individuals and two limited partnerships established in the PRC, all of which were Independent Third Parties at the time of acquisition (“**Jianxin Sellers**”) on March 29, 2021, pursuant to which, 4Paradigm Beijing agreed to purchase a total of 66.0% equity interest of Guangzhou Jianxin at an aggregate consideration of approximately RMB197.98 million.

The consideration for the acquisition of Guangzhou Jianxin was determined by arm’s length negotiations among the parties, with reference to the fair value of 100% equity interest of Guangzhou Jianxin in the amount of approximately RMB310 million as of December 31, 2020 with the adoption of discounted cash flow under the income approach and taking into account the promising prospect of Guangzhou Jianxin with reference to its historical growth in revenue and net profit as demonstrated below. Based on the annual financial reports of Guangzhou Jianxin for the years ended December 31, 2018 and 2019 and the audited consolidated financial statements for the year ended December 31, 2020, its revenue increased from approximately RMB135.4 million for the year ended December 31, 2018 to approximately RMB154.2 million and RMB190.7 million for the years ended December 31, 2019 and 2020. Guangzhou Jianxin recorded a net profit which increased from approximately RMB15.2 million for the year ended December 31, 2018 to approximately RMB28.4 million, RMB27.0 million for the years ended December 31, 2019 and 2020. As of the Latest Practicable Date, 4Paradigm Beijing has already paid approximately RMB177.05 million to Jianxin Sellers. The remaining RMB20.93 million will be paid in installments in accordance with the share purchase agreements, which specify that the last installment will be paid within 20 business days from the day after the issue of consolidated financial report of Guangzhou Jianxin for the financial year of 2023.

Guangzhou Jianxin, a national high and new technology enterprise (國家高新技術企業) established in the PRC on April 6, 2005, is a leading service provider of digital and intelligent platform in the energy and electric power industry in the PRC. It is principally engaged in sale of application software and hardware products, application development and consulting services to customers with primary focus in energy and electric power industry. In particular, leveraging its 16-year history in the industry and with its self-developed industrial internet platform, Guangzhou Jianxin offers its customers enterprise asset management products and services, including but not limited to prognostics and health management and power production management system, and application services in relation to the system such as operation and maintenance, monitoring the operation status, troubleshooting and system operation optimization. Guangzhou Jianxin was listed on National Equities Exchange and Quotations (the “**NEEQ**”) on October 24, 2016, and subsequently delisted on March 17, 2021. The market capitalization of Guangzhou Jianxin immediately prior to its delisting on National Equities Exchange and Quotations was approximately RMB224.7 million, which was calculated based

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on the trading price of the last share transfer transaction of Guangzhou Jianxin immediately prior to its delisting from the NEEQ. Due to the trading mechanism of the NEEQ and its relatively low liquidity, the aforementioned market capitalization of Guangzhou Jianxin may not reflect its actual fair value. Guangzhou Jianxin has five wholly-owned subsidiaries in the PRC. For details of the subsidiaries of Guangzhou Jianxin, please refer to the paragraph headed “Corporate Structure Immediately Before Completion of the [REDACTED]” in this section.

All applicable regulatory approvals have been obtained for the acquisition of Guangzhou Jianxin. The registration with the relevant Administration for Market Regulation in respect of the acquisition of 66% equity interest of Guangzhou Jianxin has been completed on March 31, 2021. In accordance with the share purchase agreements, 4Paradigm Beijing has been entitled to the equity interest holder’s right and obligations of the 66% equity interest in Guangzhou Jianxin since March 31, 2021. As such, the acquisition of the 66% equity interest in Guangzhou Jianxin has been properly and legally completed on March 31, 2021. For details of the holders of the remaining 34% equity interest in Guangzhou Jianxin, please refer to the paragraph headed “Corporate Structure Immediately Before Completion of the [REDACTED]” in this section.

Acquisition of Shanghai Yisaihai and capital increase of Ideal Technology

In order to achieve deep integration of IT operation management with AI applications, facilitating automation transformation and intelligent upgrade of IT operation, as well as further enhancing the Group’s solution and service offering in the finance industry, 4Paradigm Technology entered into an acquisition agreement dated June 20, 2021 (the “**Acquisition Agreement**”) with Mr. Qi Lianxu (齊連旭), Ms. Xing Cuixia (邢翠霞), and Shanghai Binghuoming Business Management Partnership (Limited Partnership) (上海炳火明企業管理合夥企業(有限合夥), “**Shanghai Binhuoming**”), pursuant to which 4Paradigm Technology agreed to purchase 100% of equity interest of Shanghai Yisaihai, which held 49.38% equity interest of Ideal Technology before the capital increase by 4Paradigm Technology pursuant to the Acquisition Agreement, from Mr. Qi and Shanghai Binhuoming for a consideration of RMB200.0 million.

Pursuant to the Acquisition Agreement, 4Paradigm Technology also agreed to purchase newly increased registered capital of Ideal Technology of RMB5,555,556 for a consideration of RMB45.0 million. On completion of the acquisition and the capital increase, 4Paradigm Technology in aggregate holds 54.44% equity interest of Ideal Technology.

The considerations for the acquisition of Shanghai Yisaihai and capital increase of Ideal Technology were determined by arm’s length negotiations among the parties, with reference to the fair value of 100% equity interest of Ideal Technology in the amount of approximately RMB420.9 million as of May 31, 2021 with the adoption of discounted cash flow under the income approach and taking into account the promising prospect of Ideal Technology with reference to its revenue growth as demonstrated below. Based on the audited financial statements of Ideal Technology, it recorded revenue of approximately RMB35.0 million, RMB50.0 million and RMB52.2 million for the years ended December 31, 2018, 2019 and

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2020. As of the Latest Practicable Date, 4Paradigm Technology has already paid RMB45.0 million to Ideal Technology and RMB140.0 million to the then shareholders of Shanghai Yisahai. The remaining RMB60.0 million will be paid in installments in accordance with the Acquisition Agreement, which specifies that the last installment will be paid within 15 business days from the day after the issue of consolidated financial report of Ideal Technology for the financial year of 2024. To the best knowledge, information and belief of the Group, each of Mr. Qi, Ms. Xing and Shanghai Binhuoming is an Independent Third Party at the time of acquisition.

Shanghai Yisahai is a limited liability company established in the PRC on June 9, 2021 and it is an investment holding company which holds 44.44% equity interest in Ideal Technology after completion of the capital increase by 4Paradigm Technology pursuant to the Acquisition Agreement.

Founded in 2000 and launched as its self-developed IT operation management software in 2002, Ideal Technology is a leading software developer offering one-stop-shop operation and maintenance automation solutions for its clients in the finance industry, Idea Technology aims to assist its enterprise clients in realizing the transformation of digitalization and automation, improving the efficiency and quality, as well as ensuring the safe, continuous and stable operation of the clients’ business systems. Ideal Technology provides information technology automation operation system software and relative application and development services to customers in finance sector. In particular, through the aforementioned products and/or service, Ideal Technology assists the data centres of banks to handle batch processing and disaster recovery through artificial intelligence for information technology operations.

All applicable regulatory approvals have been obtained for the acquisition of Shanghai Yisahai and capital increase of Ideal Technology. The registration with the relevant Administration for Market Regulation has been completed on June 23, 2021. The acquisition of Shanghai Yisahai and capital increase of Ideal Technology has been properly and legally completed on June 30, 2021 in accordance with the Acquisition Agreement. 4Paradigm Technology has been entitled to the equity interest holder’s right and obligations of the 54.44% equity interest in Ideal Technology since June 30, 2021. For details of the holders of the remaining 45.56% equity interest in Ideal Technology, please refer to the paragraph headed “Corporate Structure Immediately Before Completion of the [REDACTED]” in this section.

EMPLOYEE INCENTIVE SCHEME

In recognition of the contributions of our current employees and to incentivize them to further promote our development, Paradigm Investment was established in the PRC as our Employee Incentive Platform.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Paradigm Investment was established as a limited partnership in the PRC on March 29, 2018 as our current Employee Incentive Platform. Beijing New Wisdom is the general partner of Paradigm Investment and is responsible for the management of day-to-day affairs and exercise of the voting rights of our Employee Incentive Platform. Therefore, in effect, all management powers and voting rights of our Employee Incentive Platform reside with Dr. Dai, who owns 99% equity interest of Beijing New Wisdom. As of the Latest Practicable Date, Dr. Dai, as our Controlling Shareholder, by himself and through his close associates, Ms. Wu, Beijing New Wisdom, Paradigm Investment, Paradigm Yinyuan, Paradigm Chuqi and Paradigm Tianqin, controlled approximately 41.18% of our total issued share capital and together, they constitute a group of our Controlling Shareholder.

For the details on Paradigm Investment and information regarding the terms of the Employee Incentive Scheme, please refer to the section headed “Statutory and General Information – Further Information about Our Directors, Supervisors, Senior Management and Substantial Shareholders – 5. Employee Incentive Scheme” in Appendix VI to this Document.

[REDACTED] INVESTMENTS

From August 2015 to June 2021, our Company entered into several rounds of financing agreements with our [REDACTED] Investors through subscriptions of increased registered capital of our Company.

Series A Financing

On August 5, 2015, our Company resolved to allow Sequoia Capital China Venture to invest in our Company by subscription of the increased registered capital of our Company. The registration with AIC in respect of Series A Financing was completed on October 16, 2015. Details are set forth below:

Name of the [REDACTED] investor	Consideration	Registered
		capital subscribed to/ purchased
Sequoia Capital China Venture	<u>US\$4,000,000</u>	<u>RMB1,800,724</u>
Total	<u><u>US\$4,000,000</u></u>	<u><u>RMB1,800,724</u></u>

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Series A-1 Financing

On January 31, 2016, each of Innovation Works Development Fund III, L.P. and Sequoia Capital China Venture entered into a capital increase agreement with our Company and our then shareholders, pursuant to which each of the aforementioned [REDACTED] Investors agreed to invest in our Company by subscription of the increased registered capital of our Company. The registration with AIC in respect of Series A-1 Financing was completed on March 23, 2016. Details are set forth below:

Name of the [REDACTED] investor	Consideration	Registered capital subscribed/purchased
Innovation Works Development Fund III, L.P.	US\$2,100,000	RMB379,100
Sequoia Capital China Venture	US\$1,400,000	RMB252,733
Total	US\$3,500,000	RMB631,833

Series A-2 Financing

On July 15, 2016, each of Beijing Innovation, Sequoia Mingde and Shanghai Fengshang Venture Capital Partnership (Limited Partnership) (formerly known as Shanghai Fengshang Equity Investment Fund Partnership (Limited Partnership)) entered into a capital increase agreement with our Company and our then shareholders, pursuant to which each of the aforementioned [REDACTED] Investors agreed to invest in our Company by subscription of the increased registered capital of our Company. The registration with AIC in respect of Series A-2 Financing was completed on November 28, 2016. Details are set forth below:

Name of the [REDACTED] investor	Consideration	Registered capital subscribed/purchased
Beijing Innovation	RMB39,821,064	RMB605,651
Sequoia Mingde	RMB19,188,940	RMB291,851
Shanghai Fengshang Venture Capital Partnership (Limited Partnership)	RMB27,000,000	RMB410,651
Total	RMB86,010,004	RMB1,308,153

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Series B-1 Financing

On November 11, 2017, each of YSC Investment I, Value Global Limited, Guangkong Zhongying, Sequoia Zhisheng, Beijing Innovation, Sinovation Fund III and LF Beta entered into a capital increase agreement with our Company, 4Paradigm Beijing, 4Paradigm Technology, Shanghai Shishuo and our then shareholders, pursuant to which each of the aforementioned [REDACTED] Investors agreed to invest in our Company by subscription of the increased registered capital of our Company. The registration with AIC in respect of Series B-1 Financing was completed on December 19, 2017. Details are set forth below:

Name of the [REDACTED] investor	Consideration	Registered capital subscribed/purchased
YSC Investment I	US\$18,000,000	RMB627,516
Value Global	US\$6,000,000	RMB209,172
Guangkong Zhongying	US\$2,000,000	RMB69,724
Sequoia Zhisheng	US\$6,168,961	RMB215,062
Beijing Innovation	US\$1,520,120	RMB52,995
Sinovation Fund III	US\$951,501	RMB33,171
LF Beta	US\$359,418	RMB12,531
Total	US\$35,000,000	RMB1,220,171

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Series B-2 Financing

On December 28, 2017, each of Hubei Boheng, Zhuhai Rongxiao Equity Investment Partnership (Limited Partnership) and Chance Talent entered into a capital increase agreement with our Company, 4Paradigm Beijing, 4Paradigm Technology, Shanghai Shishuo, Dr. Dai and Ms. Wu, pursuant to which each of the aforementioned [REDACTED] Investors agreed to invest in our Company by subscription of the increased registered capital of our Company. The registration with AIC in respect of Series B-2 Financing was completed on June 15, 2018. Details are set forth below:

Name of the [REDACTED] investor	Consideration	Registered capital subscribed/purchased
Hubei Boheng	US\$5,000,000	RMB174,310
Zhuhai Rongxiao Equity Investment Partnership (Limited Partnership)	US\$5,000,000	RMB174,310
Chance Talent	US\$2,000,000	RMB69,724
Total	US\$12,000,000	RMB418,344

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Series C Financing

On October 31, 2018, our Company, our then shareholders and our Series C [REDACTED] Investors entered into a capital increase agreement, pursuant to which each of the aforementioned [REDACTED] Investors agreed to invest in our Company by subscription of the increased registered capital of our Company. The registration with AIC in respect of Series C Financing was completed on March 29, 2019. Details are set forth below:

Name of the [REDACTED] investor	Consideration	Registered capital subscribed/purchased
Guoxin Qidi	US\$49,497,459	RMB771,335
Ningbo Huiyuan	US\$502,541	RMB7,831
Zhuhai Jiaxun	US\$28,716,653	RMB447,501
Onew Capital SPC Cayman Corporate	US\$10,000,000	RMB155,833
Zhuhai Xuren	US\$14,358,326	RMB223,750
Ruihui Haina	US\$20,000,000	RMB311,667
Bocom International Holdings Company Limited	US\$15,000,000	RMB233,750
CITIC Securities Investment	US\$2,871,665	RMB44,750
Jinshi Jinrui	US\$3,589,582	RMB55,938
Jinshi Haofeng	US\$2,871,665	RMB44,750
Jinshi Zhiyu	US\$2,871,665	RMB44,750
Nongwan Investment	US\$4,307,498	RMB67,125
Sequoia Zhisheng	US\$3,000,000	RMB46,750
Total	US\$157,587,054	RMB2,455,730

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Series C-1 Financing

On July 31, 2019, Cisco China, CNCB (Hong Kong) Investment Limited and Nongwan Investment entered into a capital increase agreement with our Company, 4Paradigm Beijing, 4Paradigm Technology, Shanghai Shishuo, Future Paradigm and Dr. Dai, pursuant to which the aforementioned [REDACTED] Investors agreed to invest in our Company by subscription of the increased registered capital of our Company. The registration with AIC in respect of Series C-1 Financing was completed on October 20, 2020. Details are set forth below:

Name of the [REDACTED] investor	Consideration	Registered capital subscribed/purchased
Cisco China	US\$5,000,000	RMB63,295
Nongwan Investment	US\$500,000	RMB6,329
CNCB (Hong Kong) Investment Limited	US\$15,000,000	RMB189,885
Total	US\$20,500,000	RMB259,509

Series C-2 Financing

On December 20, 2019, each of Shenzhen Songhe, Shenzhen Lingyu and Shenzhen Linghui entered into a capital increase agreement with our Company, 4Paradigm Beijing, 4Paradigm Technology, Shanghai Shishuo, Future Paradigm and Dr. Dai, pursuant to which each of the aforementioned [REDACTED] Investors agreed to invest in our Company by subscription of the increased registered capital of our Company. The registration with AIC in respect of Series C-2 Financing was completed on October 20, 2020. Details are set forth below:

Name of the [REDACTED] investor	Consideration	Registered capital subscribed/purchased
Shenzhen Songhe	US\$20,000,000	RMB213,867
Shenzhen Lingyu	US\$20,000,000	RMB213,867
Shenzhen Linghui	US\$10,000,000	RMB106,933
Total	US\$50,000,000	RMB534,667

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Series D Financing

On November 12, 2020, our Company, 4Paradigm Beijing, 4Paradigm Technology, Shanghai Shishuo, Dr. Dai and our Series D [REDACTED] Investors entered into a capital increase agreement, pursuant to which each of the aforementioned [REDACTED] Investors agreed to invest in our Company by subscription of the increased registered capital of our Company. The registration with AIC in respect of Series D Financing was completed on February 9, 2021, April 29, 2021, May 8, 2021 and July 9, 2021, respectively. Details are set forth below:

Name of the [REDACTED] investor	Consideration	Registered capital subscribed/purchased
Boyu Jingtai ⁽¹⁾	RMB653,950,000	RMB899,212
PV Ivory Limited ⁽²⁾	US\$85,500,000	RMB768,826
Qiushi Xingde ⁽¹⁾	US\$14,500,000	RMB130,386
Parade II Technology Investment Company Limited ⁽²⁾	US\$80,000,000	RMB719,369
China-UAE Investment ⁽³⁾	US\$60,000,000	RMB539,527
Sequoia Hanchen ⁽²⁾	US\$60,000,000	RMB539,527
CDBC Manufacturing Fund ⁽¹⁾	US\$45,000,000	RMB404,645
Jiangsu Jiequan ⁽¹⁾	US\$30,000,000	RMB269,763
Lucent Shanghai ⁽⁴⁾	RMB196,185,000	RMB269,763
MIC Capital ⁽⁴⁾	US\$21,000,000	RMB188,834
Hangzhou Fantong ⁽⁴⁾	US\$20,000,000	RMB179,842
CPE Investment (Hong Kong) 2018 Limited ⁽⁴⁾	US\$20,000,000	RMB179,842
JIC Tech-Inv ⁽⁴⁾	US\$15,000,000	RMB134,882
Zhuhai Jinyiming ⁽⁴⁾	US\$15,000,000	RMB134,882
Beijing New Power ⁽⁴⁾	US\$15,000,000	RMB134,882
GS Asia II ⁽⁴⁾	US\$14,300,000	RMB128,587
Stonebridge 2020 ⁽⁴⁾	US\$5,700,000	RMB51,255
CITIC Jiantou (Shenzhen) Strategic Emerging Industry Equity Investment Fund Partnership (Limited Partnership) ⁽⁴⁾	US\$8,000,000	RMB71,937
CITIC Construction Investment ⁽⁴⁾	US\$4,000,000	RMB35,968
Fangyuan Chuangying ⁽⁴⁾	US\$10,000,000	RMB89,921
Haitong International Investment ⁽⁴⁾	US\$10,000,000	RMB89,921
Jiaxing Chenyue ⁽⁴⁾	US\$10,000,000	RMB89,921
Lianxiang Yangtze River ⁽⁴⁾	US\$6,900,000	RMB62,046
CITIC Securities Investment ⁽¹⁾	US\$6,000,000	RMB53,953
Growing Fame ⁽⁴⁾	US\$5,000,000	RMB44,961
Guangkong Zhongying ⁽¹⁾	US\$2,300,000	RMB20,682
Hainan BOCOM ⁽⁴⁾	US\$2,000,000	RMB17,984
NIFA No. 1 ⁽¹⁾	US\$2,000,000	RMB17,984
Dongkong Jinlong ⁽⁴⁾	US\$1,500,000	RMB13,488
Ningbo Huiyuan ⁽¹⁾	US\$1,300,000	RMB11,690
Total	US\$700,000,000	RMB6,294,480

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Notes:

- (1) These 8 Series D [REDACTED] Investors completed the registration with AIC on February 9, 2021.
- (2) These 3 Series D [REDACTED] Investors completed the registration with AIC on April 29, 2021, among which PV Ivory Limited transferred all its rights, obligations and interest under the above capital increase agreement to its related party Xinhe No.1; Parade II Technology Investment Company Limited transferred all its rights, obligations and interests under the capital increase agreement to its related party Purui Tianjin.
- (3) China-UAE Investment completed the registration with AIC on May 8, 2021
- (4) These 18 Series D [REDACTED] Investors completed the registration with AIC on July 9, 2021

Series D+ Financing

On April 25, 2021, Zhongyi Equity Fund entered into a capital increase agreement with our Company, 4Paradigm Beijing, 4Paradigm Technology, Shanghai Shishuo and Dr. Dai, pursuant to which the aforementioned [REDACTED] Investor agreed to invest in our Company by subscription of the increased registered capital of our Company. The registration with AIC in respect of Series D+ Financing was completed on July 9, 2021. Details are set forth below:

Name of the [REDACTED] investor	Consideration	Registered capital subscribed/purchased
Zhongyi Equity Fund	<u>RMB325,000,000</u>	<u>RMB446,890</u>
Total	<u>RMB325,000,000</u>	<u>RMB446,890</u>

Series D+2 Financing

On June 30, 2021, our Company resolved to allow Hainan Yuanfengshang to invest in our Company by subscription of the increased registered capital of our Company. The registration with AIC in respect of Series D+2 Financing was completed on July 9, 2021. Details are set forth below:

Name of the [REDACTED] investor	Consideration	Registered capital subscribed/purchased
Hainan Yuanfengshang	<u>RMB25,000,000</u>	<u>RMB34,376</u>
Total	<u>RMB25,000,000</u>	<u>RMB34,376</u>

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Principal terms of the [REDACTED] Investments and [REDACTED] Investors’ Rights

The following table summarizes the key terms of the [REDACTED] Investments to our Company made by the [REDACTED] Investors:

Round	Amount of registered capital increased (RMB)	Amount of registered capital after each round of [REDACTED] Investments (RMB)	Amount of consideration paid	Implied valuation of our Company ⁽¹⁾	Date of agreements/ resolutions	Date of payment of full consideration	Cost per Share paid under the [REDACTED] investments (approximation) (US\$)	Discount to the [REDACTED] ⁽²⁾ (approximation)
Series A	1,800,724	12,004,824	US\$4,000,000	US\$26,666,666	August 5, 2015	December 7, 2016	0.14	[REDACTED]%
Series A-1	631,833	12,636,657	US\$3,500,000	US\$70,000,000	January 31, 2016	June 29, 2016	0.35	[REDACTED]%
Series A-2	1,308,153	13,944,810	RMB86,010,004	US\$139,863,129	July 15, 2016	November 9, 2016	0.64	[REDACTED]%
Series B-1	1,220,171	15,164,981	US\$35,000,000	US\$435,000,000	November 11, 2017	March 9, 2018	1.83	[REDACTED]%
Series B-2	418,344	15,583,325	US\$12,000,000	US\$447,000,000	December 28, 2017	August 31, 2018	1.83	[REDACTED]%
Series C	2,455,730	18,039,055	US\$157,587,054	US\$1,157,587,054	October 31, 2018	March 25, 2019	4.08	[REDACTED]%
Series C-1	259,509	19,051,774	US\$20,500,000	US\$1,520,500,000	July 31, 2019	March 25, 2020	5.03	[REDACTED]%
Series C-2	534,667	19,782,655	US\$50,000,000	US\$1,850,000,000	December 20, 2019	March 30, 2020	5.95	[REDACTED]%
Series D	6,294,480	26,077,135	US\$700,000,000	US\$2,900,000,000	November 12, 2020	May 28, 2021	7.08	[REDACTED]%
Series D+	446,890	27,827,882	RMB325,000,000	US\$2,949,697,989	April 25, 2021	July 13, 2021	7.08	[REDACTED]%
Series D+2	34,376	27,862,258	RMB25,000,000	US\$2,951,991,742	June 30, 2021	July 12, 2021	7.08	[REDACTED]%

Note:

- (1) The implied valuation is the value of our Company after the completion of the relevant [REDACTED] Investment, which is equal to the sum of the pre-money valuation and the amount of the relevant [REDACTED] Investment.
- (2) Calculated based on the assumption that the [REDACTED] is HK\$[REDACTED] per Share (being the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED]).

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- (3) The increase from the implied valuation of Series A financing to the implied valuation of Series A-1 financing was mainly because we had a number of milestones during the period between the two financings. For example, we finished forming the core management and technical team and started serving our first lighthouse user in the finance industry in 2015 by offering application development and other services to develop intelligent product recommendation applications.
- (4) The increase from the implied valuation of Series A-1 financing to the implied valuation of Series A-2 financing was mainly because we started offering Sage Platform version 2.0, an end-to-end AI application development platform.
- (5) The increase from the implied valuation of Series A-2 financing to the implied valuation of Series B-1 and Series B-2 financings was mainly because we had a number of milestones during the period between the three financings. For example, we obtained the First Prize of the highest award in the PRC’s AI field, Wu Wenjun AI Science and Technology Award (吳文俊創新一等獎) in December 2016. We started serving other financial institutions such as securities companies, and we started our collaboration with Bank A, one of the largest state-owned banks in China, since 2017 and helped Bank A establish risk control AI models by analyzing its users’ historical transaction information, current transaction information and other relevant data. For details, please refer to the paragraph headed “Business – Use Cases of Our Solutions” in this document.
- (6) The increase from the implied valuation of Series B-2 financing to the implied valuation of Series C financing was mainly because we had a number of milestones during the period between the two financings. For example, we secured purchase of solutions from Bank A in the amount of approximately RMB20 million in 2018 and continued to expand our offering to other users such as insurance companies, started offering Sage Platform version 3.0, an end-to-end AI application development platform, and partnered with a leading provider of AI-enabled solution around the world to establish AI laboratory, to explore and develop innovative AI platforms by leveraging the technical strengths and experience of the market player.
- (7) The increase from the implied valuation of Series C financing to the implied valuation of Series C-2 financing was mainly because we had a number of milestones during the period between the three financings. For example, we were able to expand our services quickly to address business needs of our users and the number of our lighthouse users increased from 18 in 2018 to 32 in 2019 and the average revenue per lighthouse user increased from RMB3.9 million to RMB8.3 million in 2019; and we recorded revenue of more than RMB100 million per annum for the year ended December 31, 2018, and commenced serving users in the retail and energy sectors.
- (8) The increase from the implied valuation of Series C-2 financing to the implied valuation of Series D, Series D+ and D+2 financings was mainly because we had a number of milestones during the period between the four financings. For example, we recorded revenue of RMB459.5 million for the year ended December 31, 2019 and experienced tremendous revenue growth of 259.7% when compared to 2018 driven by the increase of number of users and increased spending of our users, and we launched SageOne, our software-defined “All-in-One” solutions with pre-built Sage Platform and applications on servers and other related hardware in 2019. In 2020, we launched Sage AIOS, an AI operating system featuring user-friendly interface, standardized data processing, automated, resource management and allocation and fully compatible middleware that are comparable to personal computer operation system and commenced serving users in manufacturing sectors, and we were selected as a global representative corporation in Gartner’s Emerging Technologies and Trends Impact Radar.

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Basis of determination of the valuation and consideration	The valuation and considerations for each round of [REDACTED] Investments were determined based on arm’s length negotiation amongst the respective [REDACTED] Investors and our Group after taking into consideration of the timing of the investments and the status of our business operations.
Lock-up Period	Pursuant to the applicable PRC law, within the 12 months following the [REDACTED], all existing Shareholders (including the [REDACTED] Investors) could not dispose of any of the Shares held by them.
Use of [REDACTED] from the [REDACTED] Investments	We utilized the [REDACTED] from the [REDACTED] Investments for the principal business of our Group, including but not limited to research and development activities, the growth and expansion of our Company’s business and general working capital purposes. As of the Latest Practicable Date, approximately 46.5% of the net [REDACTED] from the [REDACTED] Investments have been utilized.
Strategic benefits to our Company brought by the [REDACTED] Investors	At the time of the relevant [REDACTED] Investments, our Directors were of the view that our Group could benefit from the additional funds provided by the [REDACTED] Investors’ investments in our Group and the knowledge and experience of the [REDACTED] Investors.

Rights of the [REDACTED] Investors

The [REDACTED] Investors (other than Hainan Yuanfengshang, our [REDACTED] Investor in Series D+2 Financing) were granted customary special rights, including but not limited to (i) right of first refusal and co-sale, (ii) anti-dilution rights, (iii) liquidation rights, (iv) divestment rights and (v) information rights. Pursuant to a termination agreement entered into by our Company with our [REDACTED] Investors (other than Hainan Yuanfengshang, our [REDACTED] Investor in Series D+2 Financing) and the then Shareholders of the Company dated July 16, 2021 (the “**Termination Agreement**”), except for the divestment rights as described below, all other special rights shall cease to be effective and be discontinued upon [REDACTED].

Pursuant to the Termination Agreement, our [REDACTED] Investors (other than Hainan Yuanfengshang, our [REDACTED] Investor in Series D+2 Financing) have agreed to terminate the relevant divestment rights granted by the Company and Dr. Dai with effect immediately before submitting the application to CSRC for the [REDACTED] and the [REDACTED] of its overseas-listed foreign shares (H Shares) on the Stock Exchange by the Company (the “[REDACTED] **Application**”), provided such divestment rights shall automatically be reinstated upon the earliest occurrence of any one of the following events: (a) the Company withdraws its [REDACTED] Application; (b) the [REDACTED] Application lapses and the Company does not submit renewed [REDACTED] Application with three

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months after the lapse; (c) the Company is unable to obtain approval from the CSRC or the relevant stock exchange (including but not limited to the Stock Exchange); or (d) the [REDACTED] and the [REDACTED] and trading on stock exchange does not occur within 48 months after the completion of Series D Financing or 18 months after the date of the Termination Agreement, whichever is earlier.

Joint Sponsors’ Confirmation

On the bases that (i) the consideration for the [REDACTED] Investments was irrevocably settled more than 28 clear days before the date of our first submission of the [REDACTED] application to the Stock Exchange; and (ii) the special rights granted to the [REDACTED] Investors shall cease to be effective and be discontinued upon the [REDACTED] (save for the divestment rights as described above), the Joint Sponsors confirm that the [REDACTED] Investments are in compliance with the Interim Guidance on [REDACTED] Investments issued by the Stock Exchange on October 13, 2010 and as updated in March 2017 and the Guidance Letter HKEX-GL43-12 issued by the Stock Exchange in October 2012 and as updated in July 2013 and March 2017.

Information about our [REDACTED] Investors

Set out below is a description of our principal [REDACTED] Investors, being private equity funds and corporations, and that have made meaningful investments in our Company (each holding more than 1.00% of our total issued and outstanding Shares immediately prior to the [REDACTED]).

Sequoia Capital China Venture

SCC Venture V-Mars (HK) Limited is a limited liability company incorporated in Hong Kong on December 8, 2014. Sequoia Capital China Venture has an investment size of US\$5.4 million. As of the Latest Practicable Date, the sole shareholder of Sequoia Capital China Venture was Sequoia Capital China Venture Fund V, L.P., whose general partner is SC China Venture V Management, L.P.. None of the limited partners of Sequoia Capital China Venture Fund V, L.P. has more than 30.0% of partnership interest in Sequoia Capital China Venture Fund V, L.P.. SC China Holding Limited is the general partner of SC China Venture V Management, L.P., and is wholly owned by SNP China Enterprises Limited, which is in turn wholly owned by Mr. Neil Nanpeng Shen, our former Director.

Sequoia Hanchen, Sequoia Mingde and Sequoia Zhisheng

Shenzhen Sequoia Hanchen Equity Investment Partnership (Limited Partnership) is a limited partnership established in the PRC on September 29, 2019. Sequoia Hanchen has a registered capital of approximately RMB12 billion and a paid-in capital of approximately RMB12.2 billion, focusing on the investments in technology, media and telecommunication, healthcare, consumer goods and modern services sectors. Shenzhen Sequoia Antai Equity Investment Partnership (Limited Partnership) (深圳紅杉安泰股權投資合夥企業(有限合夥)) (“**Sequoia Antai**”), a limited partnership established in the PRC, is the general partner of Sequoia Hanchen. Sequoia Antai is ultimately controlled by Mr. Zhou Kui (周逵). The only

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limited partner of Sequoia Hanchen is Shenzhen Sequoia Yuechen Investment Partnership (Limited Partnership) (深圳紅杉悅辰投資合夥企業(有限合夥)), holding approximately 99.9% of partnership interest in Sequoia Hanchen. To the best knowledge of our Directors, each of Mr. Zhou Kui, Sequoia Hanchen’s general partner and limited partner is an Independent Third Party.

Beijing Sequoia Mingde Equity Investment Center (Limited Partnership) is a limited partnership established in the PRC on June 17, 2015. Sequoia Mingde has a registered capital of approximately RMB6 billion and a paid-in capital of approximately RMB5.1 billion, focusing on the investments in technology, media and telecommunication, healthcare, consumer goods and modern services sectors. Beijing Sequoia Kunde Investment Management Center (Limited Partnership) (北京紅杉坤德投資管理中心(有限合夥)) (“**Sequoia Kunde**”), a limited partnership established in the PRC, is the general partner of Sequoia Mingde. Sequoia Kunde is ultimately controlled by Mr. Zhou Kui (周逵). Sequoia Mingde has two limited partners and its largest limited partner is Beijing Sequoia Shengde Equity Investment Center (Limited Partnership) (北京紅杉盛德投資中心(有限合夥)), holding approximately 66.7% of partnership interest in Sequoia Mingde. To the best knowledge of our Directors, each of Mr. Zhou Kui, Sequoia Mingde’s general partner and limited partners is an Independent Third Party.

Ningbo Meishan Bonded Zone Sequoia Zhisheng Equity Investment Partnership (Limited Partnership) is a limited partnership established in the PRC on August 9, 2017. Sequoia Zhisheng has a registered capital of approximately RMB7.5 billion and a paid-in capital of approximately RMB5.7 billion, focusing on the investments in technology, media and telecommunication, healthcare, consumer goods and modern services sectors. Jiaxing Sequoia Kunsheng Investment Management Partnership (Limited Partnership) (嘉興紅杉坤盛投資管理合夥企業(有限合夥)) (“**Sequoia Kunsheng**”), a limited partnership established in the PRC, is the general partner of Sequoia Zhisheng. Sequoia Kunsheng is ultimately controlled by Mr. Zhou Kui (周逵). Sequoia Zhisheng has two limited partners and its largest limited partner is Ningbo Meishan Bonded Zone Sequoia Mingsheng Equity Investment Partnership (Limited Partnership) (寧波梅山保稅港區紅杉銘盛股權投資合夥企業(有限合夥)), holding approximately 60.0% of partnership interest in Sequoia Zhisheng. To the best knowledge of our Directors, each of Mr. Zhou Kui, Sequoia Zhisheng’s general partner and limited partners is an Independent Third Party.

Boyu Jingtai

Boyu Jingtai (Shanghai) Equity Investment Partnership (Limited Partnership) is a limited partnership established in the PRC on December 28, 2016. Boyu Jingtai has approximately RMB7.9 billion assets under management focusing on the investments in consumer goods and retail, financial services, healthcare, technology, media and business services sectors. Boyu Jingtai (Shanghai) Enterprise Management Co., Ltd., a limited liability company established in the PRC, is the general partner of Boyu Jingtai and ultimately controlled by Huang Ailian (黃愛蓮) and Tao Rong (陶融). Boyu Jingtai has 22 limited partners and its largest limited partner

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is National Council for Social Security Fund (全國社會保障基金理事會), an Independent Third Party. To the best knowledge of our Directors, each of Huang Ailian, Tao Rong, Boyu Jingtai, its general partner and limited partners is an Independent Third Party.

Guoxin Qidi

Henan Guoxin Qidi Equity Investment Fund (Limited Partnership) is a limited partnership established in the PRC on August 2, 2017. Guoxin Qidi is a Renminbi venture capital fund with approximately RMB2.05 billion assets under management. It focuses on the investments in technology, media and telecommunication, healthcare and new energy sectors. Its invested companies include Cambricon Technologies Corporation Limited (中科寒武紀科技股份有限公司) (SHSE: 688256), Shenzhen Vp Information Technology Co., Ltd. (深圳微品致遠信息科技有限公司) and Shenzhen Pharmacin Co., Ltd. (深圳市藥欣生物科技有限公司). Henan Guoxin Qidi Fund Management Co., Ltd., a limited liability company established in the PRC, is the general partner of Guoxin Qidi and ultimately controlled by Tsinghua University (清華大學). Guoxin Qidi has six limited partners and its largest limited partners are Henan Province Modern Service Industry Investment Fund Co., Ltd. (河南省現代服務業產業投資基金有限公司), Enlightenment Technology Service Co., Ltd. (啟迪科技服務有限公司) and China State-owned Capital VC Fund Co., Ltd. (中國國有資本風險投資基金股份有限公司), each holding approximately 25.0% of partnership interest in Guoxin Qidi. To the best knowledge of our Directors, each of Tsinghua University, Guoxin Qidi, its general partner and limited partners is an Independent Third Party.

Xinhe No. 1

Xinhe No. 1 (Tianjin) Technology Center (Limited Partnership) is a limited partnership established in the PRC on January 26, 2021. Xinhe No.1 is an investment fund focusing on the investments in technology, media and telecommunication sectors with a fund size of RMB701 million. Chunhua Mingde (Tianjin) Equity Investment Management Partnership (Limited Partnership) (春華明德(天津)股權投資管理合夥企業(有限合夥)) (“**Chunhua Mingde**”), a limited partnership established in the PRC, is the general partner of Xinhe No. 1 and is controlled by its general partner, Chunhua (Tianjin) Equity Investment Management Limited (春華(天津)股權投資管理有限公司) (“**Chunhua Tianjin**”), which is ultimately controlled by an individual, who is an Independent Third Party. Chunhua Tianjin is a private equity fund manager registered with the AMAC with the registration number P1001073. Chunhua Xinhe (Tianjin) Equity Investment Management Partnership (春華信和(天津)股權投資合夥企業(有限合夥)) (“**Chunhua Xinhe**”), a limited partnership in the PRC, is the limited partner of Xinhe No.1. The general partner of Chunhua Xinhe is Chunhua Mingde, which is also controlled by Chunhua Tianjin, and Chunhua Xinhe has one limited partner which is Primavera Capital Fund III L.P., holding approximately 99.9% of partnership interest in Chunhua Xinhe. Primavera Capital Fund III L.P. is ultimately controlled by Mr. Fred Zulu Hu. To the best knowledge of our Directors, each of Xinhe No.1, its general partner, limited partner, ultimate beneficial owner and Chunhua Tianjin is an Independent Third Party.

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Purui Tianjin

Purui Enterprise Management (Tianjin) Partnership (Limited Partnership) is a limited partnership established in the PRC on February 4, 2021. Purui Tianjin is an investment fund focusing on the investments in technology sector with a fund size of RMB600 million. Purui Management Consulting (Tianjin) Co., Ltd. (樸瑞管理諮詢(天津)有限公司) (“**Purui Management**”), a limited liability company established in the PRC, is the general partner of Purui Tianjin and is ultimately controlled by individuals, who are Independent Third Parties. Purui Tianjin has one limited partner, Purui Equity Investment (Tianjin) Partnership (Limited Partnership) (樸瑞股權投資(天津)合夥企業(有限合夥)) (“**Purui Investment**”). Purui Investment is a limited partnership in the PRC, and Purui Management is also the general partner of Purui Investment. Purui Investment has one limited partner, Parade II Technology Investment Company Limited, holding approximately 99.8% of partnership interest in Purui Investment. Parade II Technology Investment Company Limited is ultimately controlled by Mr. Lau Teck Sien. To the best knowledge of our Directors, each of Purui Tianjin, its general partner, limited partner and ultimate beneficial owners is an Independent Third Party.

YSC Investment I

YSC Investment I (HK) Limited is a limited liability company incorporated in Hong Kong on January 15, 2016, which was owned as to 100% by YSC Investment I (BVI) Ltd., which is held as to approximately 55.6% by Tencent Mobility Limited and 44.4% by Genesis Capital I LP. Tencent Mobility Limited is a wholly-owned subsidiary of Tencent Holdings Limited, a company listed on the Stock Exchange (SEHK: 700). The general partner of Genesis Capital I LP is Genesis Capital Ltd. which is ultimately controlled by Peng Zhijian (彭志堅), who was our former director until July 9, 2021, and currently serves as YSC Investment I’s director. YSC Investment I is an investment vehicle with an investment size of US\$18 million.

Prior to July 9, 2021, Peng Zhijian was a director nominated by YSC Investment I to our Board as its representative as a result of its investment in our Company and was not involved in day-to-day management of our Group. For the preparation of the [REDACTED], the Company reviewed its board composition and Mr. Peng decided to resign as a director of the Company on his own accord after due consideration to accommodate the Company’s plan for streamlining the board structure. Mr. Peng does not have any role in the Group or its associates after the aforementioned resignation.

China-UAE Investment

China-UAE Investment Cooperation (HK 1) Company Limited is a limited liability company incorporated in Hong Kong on November 27, 2020. As of the Latest Practicable Date, Khaled Salem Omar Salem AI SHAMLAN, Matthew Peter RYAN, Li Yixuan and Hu Zhiwei served as the directors of China-UAE Investment, and the sole shareholder is China-UAE Investment Cooperation (Cayman) Holdings Limited, which is held by China-UAE Investment Cooperation Fund, L.P.. The limited partnership interest of China-UAE Investment Cooperation Fund L.P. is held as to 50.0% by Seventy Seventh Investment Company L.L.C.,

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42.5% by China Development Bank International Holdings Limited (國開國際控股有限公司) and 7.5% by Upright Rhythm Limited. Seventy Seventh Investment Company L.L.C. is ultimately controlled by the Government of the Emirate of Abu Dhabi, China Development Bank International Holdings Limited is ultimately controlled by MOF. Upright Rhythm Limited is ultimately controlled by SAFE. China-UAE Investment is an investment vehicle focusing on the investment in technology, media and telecommunication sectors with an investment size of US\$60 million. To the best knowledge of our Directors, each of MOF, China-UAE Investment, China-UAE Investment Cooperation (Cayman) Holdings Limited, China-UAE Investment Cooperation Fund L.P., Seventy Seventh Investment Company L.L.C., China Development Bank International Holdings Limited and Upright Rhythm Limited is an Independent Third Party.

Beijing Innovation

Beijing Innovation Works VC Center (Limited Partnership) is a limited partnership established in the PRC on May 22, 2015. Beijing Innovation has approximately RMB2.5 billion assets under management focusing on the investments in media and telecommunication, e-learning, online retail, supply chain management and AI technology sectors. Beijing Internet Innovation Works Investment Management Co., Ltd. (北京互聯創新工場投資管理有限公司), a limited liability company established in the PRC, is the general partner and sole executive partner of Beijing Innovation, and is ultimately controlled by Li Puyu (李璞玉). Beijing Innovation has 33 limited partners and its largest limited partner is Innovation Works (Xiamen) VC Partnership (Limited Partnership) (創新工場(廈門)創業投資合夥企業(有限合夥)), holding approximately 35.1% of partnership interest in Beijing Innovation. To the best knowledge of our Directors, each of Li Puyu, Beijing Innovation, its general partner and limited partners is an Independent Third Party.

Zhuhai Hongmai

Zhuhai Hongmai Enterprise Management Partnership (General Partnership) is a general partnership established in the PRC on December 15, 2020, focusing on the investments in technology, media and telecommunication sectors with a registered capital of approximately RMB214.7 million. Zhuhai Jiaxun Equity Interest Investment Fund Partnership (Limited Partnership) (珠海嘉勛股權投資基金合夥企業(有限合夥)) (“**Zhuhai Jiaxun**”), a limited partnership established in the PRC, is one of the general partners and the sole executive partner of Zhuhai Hongmai and ultimately controlled by the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會) (“**SASAC**”). Zhuhai Hongmai’s other two general partners, Langma No.27 (Shenzhen) VC Center (Limited Partnership) (朗瑪二十七號(深圳)創業投資中心(有限合夥)) (“**Langma No.27**”) and Langma No.28 (Shenzhen) VC Center (Limited Partnership) (朗瑪二十八號(深圳)創業投資中心(有限合夥)) (“**Langma No.28**”), are both ultimately controlled by Xiao Jiancong (肖建聰). To the best knowledge of our Directors, each of Zhuhai Hongmai, Zhuhai Jiaxun, Langma No.27 and Langma No.28, SASAC and Xiao Jiancong is an Independent Third Party.

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Sinovation Fund III

Sinovation Fund III, L.P. is a limited partnership incorporated in the Cayman Islands on January 27, 2015. Sinovation Fund III has over US\$302 million assets under management focusing on the AI technology, e-learning, consumer goods and business-to-business sales sectors. Sinovation Fund Management III, L.P. is the general partner of Sinovation Fund III and ultimately controlled by Kai-Fu Lee (李開復). Sinovation Fund III has 50 limited partners and none of which has more than 30.0% of partnership interest in Sinovation Fund III. To the best knowledge of our Directors, each of Kai-Fu Lee, Sinovation Fund III, its general partner and limited partners is an Independent Third Party.

CDBC Manufacturing Fund

CDBC Manufacturing Transformation and Upgrading Fund (Limited Partnership) is a limited partnership established in the PRC on May 26, 2020. CDBC Manufacturing Fund is an investment fund focusing on the investments in new generation of information technology (NGIT) and electric power equipment manufacturing industry with a fund size of RMB50.1 billion and its portfolio companies include SenseTime Group Inc. (商湯集團股份有限公司), Haier COSMOPlat Co., Ltd. (海爾卡奧斯股份有限公司) and Irootech Technology Co., Ltd (樹根互聯股份有限公司). CDBC Investment Fund Management Co., Ltd. (國開投資基金管理有限責任公司), a limited liability company established in the PRC, is the general partner and sole executive partner of CDBC Manufacturing Fund and ultimately controlled by MOF. CDBC Manufacturing Fund has one limited partner, National Manufacturing Transformation and Upgrade Fund Co., Ltd. (國家製造業轉型升級基金股份有限公司), holding approximately 99.8% of partnership interest in CDBC Manufacturing Fund. To the best knowledge of our Directors, each of MOF, CDBC Manufacturing Fund, its general partner and limited partner is an Independent Third Party.

Ruihui Haina

Beijing Ruihui Haina Technology Industry Fund (Limited Partnership) is a limited partnership established in the PRC on August 28, 2017. Ruihui Haina has approximately RMB5 billion investment under management focusing on the investments in new energy, finance technology, AI technology, internet sectors. Its invested companies include JUMSTC Holding Limited (江蘇普飛科特信息科技有限公司) and DAS Solar Co., Ltd (一道新能源科技(衢州)有限公司). Beijing Sanxia Xintai Investment Fund Management Co., Ltd. (北京三峽鑫泰投資基金管理有限責任公司), a limited liability company established in the PRC, is the general partner and sole executive partner of Ruihui Haina and controlled by Three Gorges Capital Holding Co., Ltd. (三峽資本控股有限責任公司), which is ultimately controlled by the SASAC, and Beijing Haiguo Xintai Capital Holdings Ltd. (北京海國鑫泰資本控股有限公司) which is ultimately controlled by the State-owned Assets Supervision and Administration Commission of Beijing Haidian People's Government (北京市海淀區人民政府國有資產監督管理委員會). Ruihui Haina has seven limited partners and its largest limited partners are Beijing Haidian District State-owned Assets Investment Management Company (北京市海淀區國有資產投資經營有限公司) and Three Gorges Capital Holding Co., Ltd. (三峽資本控股有限責任公司), each holding approximately 40.0% of partnership interest in Ruihui Haina. To the best knowledge of our Directors, each of Three Gorges Capital Holding Co., Ltd., Beijing Haiguo Xintai Capital Holdings Ltd., Ruihui Haina, its general partner, limited partners and ultimate beneficial owners is an Independent Third Party.

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PUBLIC FLOAT

The 356,219,060 Domestic Shares, representing approximately 81.38% of our total issued Shares as of the Latest Practicable Date, or approximately [REDACTED]% of our total issued Shares upon [REDACTED] (assuming the [REDACTED] is not exercised), or approximately [REDACTED]% of our total issued Shares upon exercise of the [REDACTED] in full, will not be considered as part of the public float as the Shares they hold are Domestic Shares which will not be converted into H Shares and [REDACTED] following the completion of the [REDACTED].

The 6,756,150 Unlisted Foreign Shares held by Bocom International Holdings Company Limited, CNCB (Hong Kong) Investment Limited and Chance Talent, representing approximately 1.54% of our total issued Shares as of the Latest Practicable Date, or approximately [REDACTED]% of our total issued Shares upon [REDACTED] (assuming the [REDACTED] is not exercised), or approximately [REDACTED]% of our total issued Shares upon exercise of the [REDACTED] in full, will not be considered as part of the public float as the Shares they hold are Unlisted Foreign Shares and will not be converted into H Shares and [REDACTED] following the completion of the [REDACTED].

The 74,730,779 Unlisted Foreign Shares held by Sequoia Capital China Venture, YSC Investment I, China-UAE Investment, Sinovation Fund III, Major Awesome, Value Global, MIC Capital, CPE Investment (Hong Kong) 2018 Limited, GS Asia II, Haitong International Investment, Stonebridge 2020, Growing Fame and LF Beta, representing approximately 17.07% of our total issued Shares as at the Latest Practicable Date, or approximately [REDACTED]% of our total issued Shares upon [REDACTED] (assuming the [REDACTED] is not exercised), or approximately [REDACTED]% of our total issued Shares upon exercise of the [REDACTED] in full, will be converted into H Shares and [REDACTED] following the completion of the [REDACTED]. As these entities will not be core connected person of our Company upon [REDACTED], are not accustomed to take instructions from core connected persons in relation to the acquisition, disposal, voting or other disposition of their Shares and their acquisition of Shares were not financed directly or indirectly by core connected persons, the H Shares held by them will be counted towards the public float for the purpose of Rule 8.08 of the Listing Rules after the [REDACTED].

Pursuant to the applicable PRC law, within the 12 months following the [REDACTED], all existing Shareholders could not dispose of any of the Shares held by them.

Based on the above, it is expected that immediately following completion of the [REDACTED] and assuming the [REDACTED] is not exercised, the total number of [REDACTED] H Shares held by the public represents approximately [REDACTED]% of our total issued Shares upon [REDACTED].

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[REDACTED]

CAPITALIZATION OF OUR COMPANY

Upon completion of the [REDACTED] Investments as described above, a number of capital increases and equity interest transfers among shareholders of the Company and conversion of our Company into a joint stock limited company, the table below is a summary of the capitalization of our Company as of the Latest Practicable Date and the [REDACTED] (assuming the [REDACTED] is not exercised):

Shareholders	Number of Shares	Ownership percentage as of the Latest Practicable Date	Ownership percentage as of the [REDACTED]
Dr. Dai ^(A)	106,164,523	24.25%	[REDACTED]%
Paradigm Investment ^(A)	63,962,734	14.61%	[REDACTED]%
Sequoia Capital China Venture ^(B)	32,259,066	7.37%	[REDACTED]%
Boyu Jingtai ^(A)	14,126,295	3.23%	[REDACTED]%
Guoxin Qidi ^(A)	12,117,394	2.77%	[REDACTED]%
Xinhe No. 1 ^(A)	12,077,978	2.76%	[REDACTED]%
Purui Tianjin ^(A)	11,301,027	2.58%	[REDACTED]%
Paradigm Yinyuan ^(A)	10,105,649	2.31%	[REDACTED]%
YSC Investment I ^(B)	9,858,049	2.25%	[REDACTED]%
China-UAE Investment ^(B)	8,475,774	1.94%	[REDACTED]%

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Shareholders	Number of Shares	Ownership percentage as of the Latest Practicable Date	Ownership percentage as of the [REDACTED]
Sequoia Hanchen ^(A)	8,475,774	1.94%	[REDACTED]%
Beijing Innovation ^(A)	7,115,539	1.63%	[REDACTED]%
Zhuhai Hongmai ^(A)	7,030,079	1.61%	[REDACTED]%
Zhongyi Equity Fund ^(A)	7,020,480	1.60%	[REDACTED]%
Sinovation Fund III ^(B)	6,476,628	1.48%	[REDACTED]%
CDBC Manufacturing Fund ^(A)	6,356,827	1.45%	[REDACTED]%
Sequoia Mingde ^(A)	6,352,978	1.45%	[REDACTED]%
Ruihui Haina ^(A)	4,896,176	1.12%	[REDACTED]%
Jiangsu Jiequan ^(A)	4,237,879	0.97%	[REDACTED]%
Lucent Shanghai ^(A)	4,237,879	0.97%	[REDACTED]%
NIFA No. 1 ^(A)	4,162,080	0.95%	[REDACTED]%
Sequoia Zhisheng ^(A)	4,112,972	0.94%	[REDACTED]%
Qingdao Chuangxin Venture Capital Enterprise (Limited Partnership) ^(A)	3,802,047	0.87%	[REDACTED]%
Bocom International Holdings Company Limited ^(C)	3,672,128	0.84%	[REDACTED]%
Zhuhai Xuren ^(A)	3,515,032	0.80%	[REDACTED]%
Major Awesome ^(B)	3,442,422	0.79%	[REDACTED]%
Gongqingcheng Yuanchun Investment Management Partnership (Limited Partnership) ^(A)	3,391,428	0.77%	[REDACTED]%
Shenzhen Songhe ^(A)	3,359,773	0.77%	[REDACTED]%
Shenzhen Lingyu ^(A)	3,359,773	0.77%	[REDACTED]%
Value Global ^(B)	3,286,016	0.75%	[REDACTED]%
Shanghai Saixin Business Consulting Management Center (Limited Partnership) ^(A)	3,231,551	0.74%	[REDACTED]%
Guangxi Tencent Venture Capital Co., Ltd. ^(A)	3,107,791	0.71%	[REDACTED]%
MIC Capital ^(B)	2,966,514	0.68%	[REDACTED]%
Hangzhou Fantong ^(A)	2,825,253	0.65%	[REDACTED]%
CPE Investment (Hong Kong) 2018 Limited ^(B)	2,825,253	0.65%	[REDACTED]%
Hubei Boheng ^(A)	2,738,347	0.63%	[REDACTED]%
JIC Tech-Inv ^(A)	2,118,947	0.48%	[REDACTED]%
Zhuhai Jinyiming ^(A)	2,118,947	0.48%	[REDACTED]%
Beijing New Power ^(A)	2,118,947	0.48%	[REDACTED]%

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Shareholders	Number of Shares	Ownership percentage as of the Latest Practicable Date	Ownership percentage as of the [REDACTED]
Guangzhou Yuexiu Emerging Industry Phase II Investment Fund Partnership (Limited Partnership) ^(A)	2,112,208	0.48%	[REDACTED]%
Qiushi Xingde ^(A)	2,048,317	0.47%	[REDACTED]%
GS Asia II ^(B)	2,020,055	0.46%	[REDACTED]%
CNCB (Hong Kong) Investment Limited ^(C)	1,988,683	0.45%	[REDACTED]%
Beijing Lianxiang Smart Internet Innovation Fund Partnership (Limited Partnership) ^(A)	1,871,693	0.43%	[REDACTED]%
Shenzhen Linghui ^(A)	1,679,879	0.38%	[REDACTED]%
Zhuhai Zhongyu Investment Enterprise (Limited Partnership) ^(A)	1,678,669	0.38%	[REDACTED]%
Zhuhai Huiyuan Investment Partnership (Limited Partnership) ^(A)	1,658,357	0.38%	[REDACTED]%
CITIC Securities Investment ^(A)	1,550,588	0.35%	[REDACTED]%
Guangkong Zhongying ^(A)	1,420,246	0.33%	[REDACTED]%
Fangyuan Chuangying ^(A)	1,412,626	0.32%	[REDACTED]%
Haitong International Investment ^(B)	1,412,626	0.32%	[REDACTED]%
Jiaxing Chenyue ^(A)	1,412,626	0.32%	[REDACTED]%
Nongwan Investment ^(A)	1,153,936	0.26%	[REDACTED]%
Shenzhen Runxin New Vision Strategic Emerging Industry Private Equity Investment Fund Partnership (Limited Partnership) ^(A)	1,130,104	0.26%	[REDACTED]%
Chance Talent ^(C)	1,095,339	0.25%	[REDACTED]%
Cisco China ^(A)	994,342	0.23%	[REDACTED]%
Lianxiang Yangtze River ^(A)	974,720	0.22%	[REDACTED]%
Jinshi Jinrui ^(A)	878,766	0.20%	[REDACTED]%
Stonebridge 2020 ^(B)	805,198	0.18%	[REDACTED]%
Tibet Lingfeng ^(A)	761,572	0.17%	[REDACTED]%
Growing Fame ^(B)	706,321	0.16%	[REDACTED]%
Jinshi Haofeng ^(A)	703,006	0.16%	[REDACTED]%
Jinshi Zhiyu ^(A)	703,006	0.16%	[REDACTED]%
Guangzhou Yuexiu Nuocheng No. 8 Industrial Investment Partnership (Limited Partnership) ^(A)	626,139	0.14%	[REDACTED]%
CITIC Construction Investment ^(A)	565,044	0.13%	[REDACTED]%

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Shareholders	Number of Shares	Ownership percentage as of the Latest Practicable Date	Ownership percentage as of the [REDACTED]
Hainan Yuanfengshang ^(A)	540,035	0.12%	[REDACTED]%
Ningbo Huiyuan ^(A)	306,668	0.07%	[REDACTED]%
Hainan BOCOM ^(A)	282,522	0.06%	[REDACTED]%
Dongkong Jinlong ^(A)	211,892	0.05%	[REDACTED]%
LF Beta ^(B)	196,857	0.05%	[REDACTED]%
Investors taking part in the [REDACTED]	[REDACTED] ^(D)	[REDACTED]	[REDACTED]%
Total	[REDACTED]	[REDACTED]%	[REDACTED]%

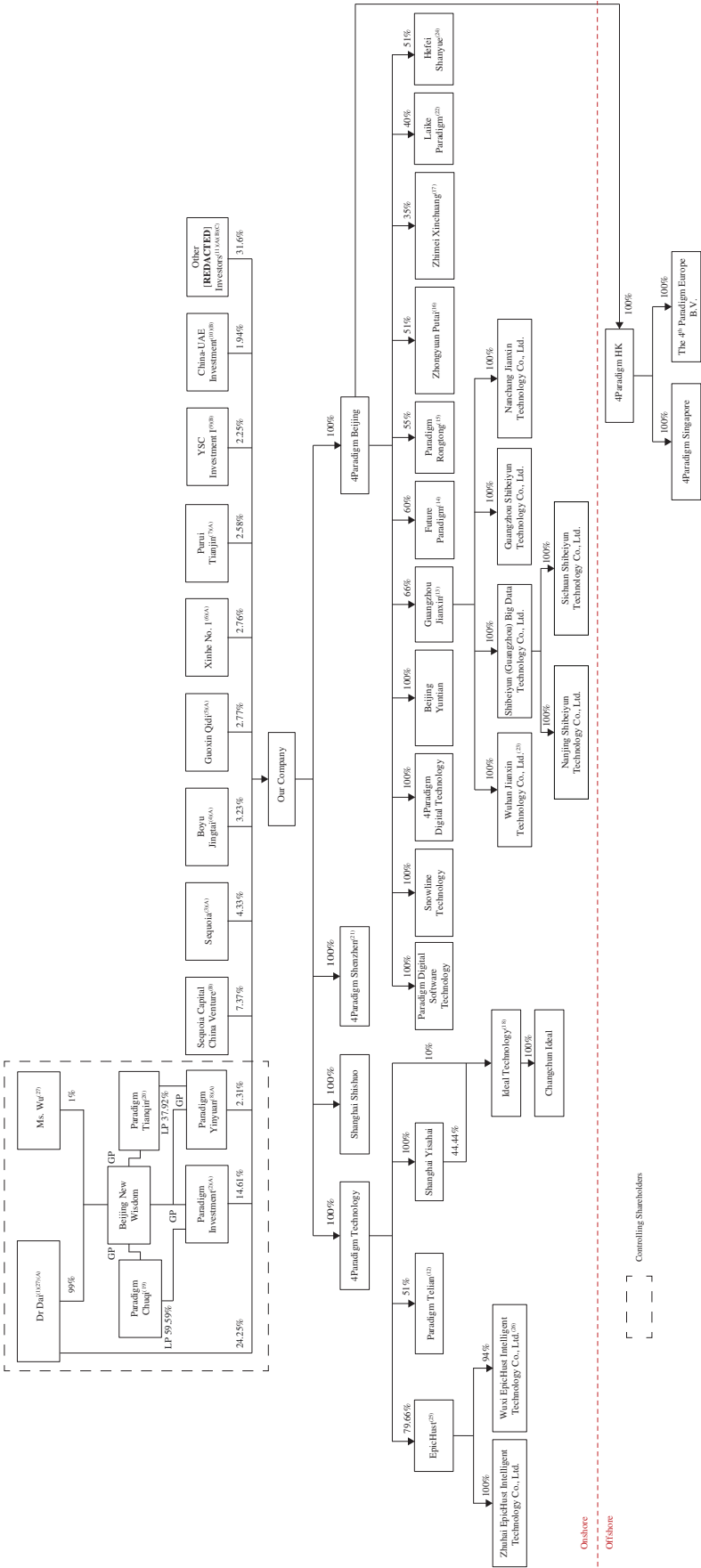
Remarks

- A. The Shares held by these Shareholders are Domestic Shares.
- B. The Shares held by these Shareholders are Unlisted Foreign Shares and will be converted to H Shares upon [REDACTED].
- C. The Shares held by these Shareholders are Unlisted Foreign Shares and will not be converted to H Shares upon [REDACTED].
- D. This refers to the number of Shares to be held by Investors taking part in the [REDACTED] as of the [REDACTED] (assuming the [REDACTED] is not exercised).

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

CORPORATE STRUCTURE IMMEDIATELY BEFORE COMPLETION OF THE [REDACTED]

The chart below sets out the shareholding structure of our Group immediately before completion of the [REDACTED]:



HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Notes:

- (1) Dr. Dai is Chairman of the Board, an executive Director, Chief Executive Officer, General Manager and one of our Controlling Shareholders. For further information, please see the sections headed “Directors, Supervisors and Senior Management – Executive Directors” and “Relationship with our Controlling Shareholders” in this Document.
- (2) Paradigm Investment is a limited liability company established in the PRC on March 29, 2018 as the Employment Incentive Platform and one of our Controlling Shareholders. For further information, please see the section headed “Statutory and General Information – Further Information about Our Directors, Supervisors, Senior Management and Substantial Shareholders – 5. Employee Incentive Schemes” in Appendix VI to this Document.
- (3) Sequoia includes the following entities of Sequoia:
 - i. Sequoia Hanchen, a limited partnership established in the PRC on September 29, 2019;
 - ii. Sequoia Mingde, a limited partnership established in the PRC on June 17, 2015; and
 - iii. Sequoia Zhisheng, a limited partnership established in the PRC on August 9, 2017.
 For further information, please see the paragraphs headed “– [REDACTED] Investments” in this section.
- (4) Boyu Jingtai is a limited partnership established in the PRC on December 28, 2016. For further information, please see paragraphs headed “– [REDACTED] Investments” in this section.
- (5) Guoxin Qidi is a limited partnership established in the PRC on August 2, 2017. For further information, please see the paragraphs headed “– [REDACTED] Investments” in this section.
- (6) Xinhe No. 1 is a limited partnership established in the PRC on January 26, 2021. For further information, please see the paragraphs headed “– [REDACTED] Investments” in this section.
- (7) Purui Tianjin is a limited partnership established in the PRC on February 4, 2021. For further information, please see the paragraphs headed “– [REDACTED] Investments” in this section.
- (8) Paradigm Yinyuan is a limited liability company established in the PRC on April 21, 2021 as one of our Controlling Shareholders.
- (9) YSC Investment I is a limited liability company incorporated in Hong Kong on January 15, 2015. For further information, please see the paragraphs headed “– [REDACTED] Investments” in this section.
- (10) China-UAE Investment is a limited liability company incorporated in Hong Kong on November 27, 2020. For further information, please see the paragraphs headed “– [REDACTED] Investments” in this section.
- (11) The remaining interest is held by the other [REDACTED] Investors. For further information, please see the paragraphs headed “– [REDACTED] Investments” in this section.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

- (12) The remaining 49% interest in Paradigm Telian is held by Terminus Technology Group Co., Ltd (特斯聯科技集團有限公司) (formerly known as Terminus (Beijing) Technology Co., Ltd. (特斯聯(北京)科技有限公司)), an Independent Third Party.
- (13) The remaining 34% interest in Guangzhou Jianxin is held by Guangzhou Shibei Commercial Partnership (Limited Partnership)* (廣州市拾貝商業合夥企業(有限合夥)) (“**Guangzhou Shibei**”) as to approximate 23.97% and Xinyang Jianyun Enterprise Management Center (Limited Partnership)* (信陽健雲企業管理中心(有限合夥)) (“**Xinyang Jianyun**”) as to approximate 10.03%. The general partner of Guangzhou Shibei is Tang Piaolin (唐票林), who is one of the directors of Guangzhou Jianxin. The general partners of Xinyang Jianyun are Tang Piaolin (唐票林), Zhang Zhenghua (張振華), Liu Yong (劉勇), Zeng Min (曾敏), Jiang Feiyong (蔣飛勇), and other 15 Independent Third Parties. Tang Piaolin (唐票林), Zhang Zhenghua (張振華) and Liu Yong (劉勇) are the directors of Guangzhou Jianxin, and Zeng Min (曾敏) and Jiang Feiyong (蔣飛勇) are the supervisors of Guangzhou Jianxin.
- (14) The remaining 40% interest in Future Paradigm is held by Beijing Xingding Capital Investment Management Co., Ltd* (北京興鼎資本投資管理有限公司), an Independent Third Party.
- (15) The remaining 45% interest in Paradigm Rongtong is held by Wang Xiaodong (王曉東) as to 31.50% and Wang Yang (萬洋) as to 13.50%. Wang Xiaodong (王曉東) and Wang Yang (萬洋) are the supervisor and director of Paradigm Rongtong, respectively.
- (16) The remaining 49% interest in Zhongyuan Putai is held by Shanghai Shima New Energy Vehicle Technology Co., Ltd.* (上海士碼新能源汽車科技有限公司) (“**Shanghai Shima**”) as to 24.5% and Beijing Zhengchang Intelligent Technology Partnership (Limited Partnership)* (北京正長智能科技合夥企業(有限合夥)), an Independent Third Party, as to 24.5%. Shanghai Shima is held as to 90% by Ma Bao (馬寶), who is a director of Zhongyuan Putai, and 10% by an Independent Third Party.
- (17) The remaining 65% interest in Zhimei Xinchuang is held by People’s Daily Wisdom Media Co., Ltd.* (人民日報智慧媒體有限公司), an Independent Third Party, as to 35% and Hu Shiwei, our senior management member, as to 30%. Hu Shiwei has agreed to act in concert with the Group. Therefore, the Group is able to exercise an additional 30% voting power in Zhimei Xinchuang, and Zhimei Xinchuang is considered as a subsidiary. Please refer to Note 1 to Accountant’s Report included in Appendix I to this Document for details.
- (18) The remaining 45.56% interest in Ideal Technology is held by Qi Lianxu (齊連旭) as to 18.56%, Hainan Ideal Technology Partnership (Limited Partnership)* (海南理想科技合夥企業(有限合夥)) (“**Hainan Ideal Technology**”) as to 18.00% and Hainan Haikuo Technology Partnership (Limited Partnership)* (海南海關科技合夥企業(有限合夥)) (“**Hainan Haikuo Technology**”) as to 9.00%. Qi Lianxu (齊連旭) is a director of Ideal Technology, and the general partner of Hainan Ideal Technology and Hainan Haikuo Technology.
- (19) As at the Latest Practicable Date, Paradigm Chuqi is interested in 59.59% limited partnership interest in Paradigm Investment. The general partner of Paradigm Chuqi is Beijing New Wisdom.
- (20) As at the Latest Practicable Date, Paradigm Tianqin is interested in 37.92% limited partnership interest in Paradigm Yinyuan. The general partner of Paradigm Yinyuan is Beijing New Wisdom.
- (21) 4Paradigm Beijing transferred its 100% equity interest in 4Paradigm Shenzhen to our Company. The registration with AIC for the equity interest transfer was completed on August 26, 2021.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

- (22) The remaining 60% interest in Laike Paradigm is held by Shanghai Laiyifen Technology Co., Ltd. (上海來伊份科技有限公司), an Independent Third Party as to 40% and Hu Shiwei, our senior management member, as to 20%. In August 2021, Hu Shiwei has agreed to act in concert with the Group. Therefore, the Group is able to exercise an additional 20% voting power in Laike Paradigm, and Laike Paradigm is considered as a subsidiary.
- (23) Wuhan Jianxin Technology Co., Ltd. was known as Yichang Jianxin Technology Co., Ltd. before September 9, 2021.
- (24) The remaining 49% interest in Hefei Shanyue is held by (Lenovo) Beijing Co., Ltd. (聯想(北京)有限公司) as to 34% and Lianba (Hefei) Electronic Technology Co., Ltd. (聯寶(合肥)電子科技有限公司) as to 15%, both of which are Independent Third Parties.
- (25) The Group acquired 79.66% interest in EpicHust in June 2022. The remaining 20.34% interest in EpicHust is owned as to 7.05% by Wuhan Huagong Venture Capital Co., Ltd. (武漢華工創業投資有限責任公司), 3.84% by Hainan Guangfengyuan Investment Partnership (Limited Partnership) (海南廣豐源投資合夥企業(有限合夥)), 3.66% by Wuhan Gonghua Maisi Software Development Co., Ltd. (武漢工華邁思軟件開發有限公司), 3.04% by Wuhan Gonghua Digital Technology Co., Ltd. (武漢工華數字技術有限公司) and 2.75% by Qianhai Guangmao International Investment Holding (Shenzhen) Co., Ltd. (前海廣貿國際投資控股(深圳)有限公司), all of which are Independent Third Parties.
- (26) The remaining 6% interest in Wuxi EpicHust Intelligent Technology Co., Ltd. is held by Wuxi Hust Industrial Incubation Co., Ltd.* (無錫華科大產業孵化有限公司), an Independent Third Party.
- (27) As at the Latest Practicable Date, our Company is owned as to 24.25% by Dr. Dai, 14.61% by Paradigm Investment and 2.31% by Paradigm Yinyuan. Paradigm Investment and Paradigm Yinyuan are both indirectly controlled by Dr. Dai and Ms. Wu, through Beijing New Wisdom, being the sole general partner of Paradigm Investment and Paradigm Yinyuan and owned as to 99% by Dr. Dai and 1% by Ms. Wu, respectively.
- Remarks:**
- (A) The Shares held by these Shareholders are Domestic Shares.
- (B) The Shares held by these Shareholders are Unlisted Foreign Shares and will be converted to H Shares upon [REDACTED].
- (C) The Shares held by these Shareholders are Unlisted Foreign Shares and will not be converted to H Shares upon [REDACTED].

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Notes:

For notes (1) to (25), please see the paragraph headed “Corporate Structure Immediately Before Completion of the [REDACTED]” in this section.

- (26) Immediately upon completion of the [REDACTED] (assuming the [REDACTED] is not exercised), our Company will be owned as to [REDACTED]% by Dr. Dai, [REDACTED]% by Paradigm Investment and [REDACTED]% by Paradigm Yinyuan. Paradigm Investment and Paradigm Yinyuan are both indirectly controlled by Dr. Dai and Ms. Wu, through Beijing New Wisdom, being the sole general partner of Paradigm Investment and Paradigm Yinyuan and owned as to 99% by Dr. Dai and 1% by Ms. Wu, respectively.

Remarks:

- (A) The Shares held by these Shareholders are Domestic Shares.
- (B) The Shares held by these Shareholders are Unlisted Foreign Shares.
- (C) The Shares held by these Shareholders are H Shares.

BUSINESS

OUR VISION

To provide world-leading AI platforms and solutions that catalyze progression of society and growth of enterprises.

OUR MISSION

To empower AI transformation and advance AI for all businesses.

OVERVIEW OF OUR BUSINESS

Who We Are

We are a leader in enterprise AI. We offer platform-centric AI solutions that can be rapidly deployed by enterprises on a large scale to uncover hidden patterns in data and comprehensively enhance their decision-making capabilities.

We were the largest player by revenue in the platform-centric decision-making AI market, a sub-segment of the AI market, in China in 2021, according to the CIC Report. We have been leading in the research of advanced AI technologies, and are the pioneer to utilize these technologies in commercial solutions. For example, according to CIC, our proprietary AutoML algorithm is a cutting-edge AutoML algorithm in the world. For details, see “Our Technology – AutoML.” With our AutoML algorithms, we broke the world records of two Open Graph Benchmark (“OGB”) tasks in terms of the accuracy and effectiveness of the algorithm in April 2021. OGB is a globally recognized collection of benchmark datasets for machine learning on graphs that AI companies and research institutions utilize to test and evaluate performance of AI models. Participants include world-famous innovative enterprises and research institutes, such as Facebook, Alibaba, Stanford University and Cornell University. Our AutoML algorithm also ranks top 1% in Kaggle Structured Data and Image Classification Competition 2019.

We emphasize value creation. Our solutions have covered a myriad of industries including, but not limited to, finance, retail, manufacturing, energy and power, telecommunications and healthcare. For example, our AI solutions have successfully helped banks enhance anti-fraud accuracy rate, retailers forecast sales volume and formulate precision marketing strategies, manufacturers optimize quality control, and energy companies detect and prevent equipment anomalies and failures. In the year of 2021 and the six months ended June 30, 2022, we had 75 and 74 lighthouse users, respectively. In 2019, 2020 and 2021, the net dollar expansion rates of our lighthouse users were 250%, 167% and 140%, respectively. A net dollar expansion rate above 100% reflects that we have generated increased revenue from the relevant lighthouse users.

During the Track Record Period, we have experienced tremendous growth. Our revenue grew by 105.0% from RMB459.5 million in 2019 to RMB942.2 million in 2020, and further by 114.2% to RMB2,018.4 million in 2021, and by 34.3% from RMB788.2 million for the six months ended June 30, 2021 to RMB1,058.2 million for the six months ended June 30, 2022.

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Our Market Opportunities

We see massive market opportunities in enterprise AI application. As a result of the advancements in AI-related academic research, surge in computing power and accumulation of data, AI plays a pivotal role in enterprise decision-making. According to CIC, the total spending on AI by enterprises in China increased from RMB31.8 billion in 2017 to RMB198.7 billion in 2021, representing a CAGR of 58.1%, and is expected to reach RMB846.6 billion in 2026 at a CAGR of 33.6%.

We believe, however, that large-scale AI transformation faces the following key challenges:

- (i) *Shortage of experts.* Experienced AI experts, especially in advanced technologies, are scarce in the market, and hence enterprises face significant difficulty and uncertainty in in-house development of AI capabilities that are tailored to various scenarios in their business operations.
- (ii) *High total cost of ownership.* According to CIC, it is estimated that companies need to spend an average of RMB500 million to develop enterprise AI applications in-house, which, coupled with costs of ongoing maintenance, procurement of hardware and engagement of AI experts, results in high total cost of ownership.
- (iii) *Long deployment time.* In the course of developing AI applications in-house or purchasing point solutions, companies likely need to adopt a “trial and error” approach in order to find the optimal portfolio of AI applications that suit their business needs. According to CIC, it is estimated to take three years on average for enterprises to establish large-scale AI infrastructure and capabilities internally with their current AI team setup.
- (iv) *Data and software incompatibility.* With point solutions designed to only address a limited number of scenario-specific problems, enterprises typically need to purchase multiple point solutions from different vendors for large-scale deployment. These solutions are often not compatible to each other and may require continuous refinement by AI engineers. Organizations’ increased awareness of data security and data privacy protection adds to the complexity of deploying different point solutions and integrating multiple data sources.

Platform centric solutions are more effective than point solutions in addressing the challenges above. Platform-centric solution is a new category under AI solution that provides building blocks, i.e., operating and development systems, runtime environment and visualization services, to build AI applications which can be tested and utilized for various use cases. Unlike point solutions that are required for scenario-specific use cases, platform-centric decision-making AI solutions provide end users with an AI development platform in addition to AI applications and underlying computing infrastructure. Such an AI development platform provides end users with uniform development standards, high compatibility as well as flexible

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expansion of applications per actual demands. With the plug-and-play feature and infrastructure for further developing and operating use-case-specific solutions, decision-making AI platforms allow for much greater flexibility, scalability, compatibility and easier management. According to CIC, the market of platform-centric decision-making AI market is expected to reach RMB84.5 billion in 2026, representing a CAGR of 55.0% from RMB9.4 billion in 2021. As a platform-centric AI solution provider, we believe we are able to capture the massive market opportunities in enterprise AI application.

Our Core Technologies and Solutions

Our platform-centric AI solutions seek to overcome challenges faced by in-house development of AI capabilities and point solutions that are designed for scenario-specific use cases, and allow enterprises to benefit from the advancement of AI technologies to the largest extent possible.

- (i) *Ease of use.* The low- and/or no-code feature of our platform and the intuitive interface of our operating system allow users with limited knowledge or experience in AI to develop, deploy and operate customized AI applications on a firm-wide basis.
- (ii) *High return on investments.* Our platform-centric AI solutions can be applied for a wide range of industries and use cases at scale. With real-time operational intelligence guiding better business decision-making, our solutions also allow users to realize meaningful economic benefits from additional revenue opportunities and improved operational efficiency.
- (iii) *Rapid time to deploy.* Due to the plug-and-play and low- and/or no-code nature of our solutions, large-scale deployment can happen in potentially just a number of days and need not to involve employees or experts with significant experience in AI.
- (iv) *Full compatibility.* Our platform-centric solutions enable data integration from different systems and sources. We focus on providing platforms and development tools for users to fully harness the value of their data, without engaging in collecting of our users’ data.

Our Core AI Technologies

We have been leading in the research of advanced AI technologies, and are the pioneer to utilize these technologies in commercial solutions. Core technologies underlying our AI solutions include:

- *AutoML.* Our AutoML technology automates the process of machine learning and enables algorithms to automatically discover new patterns, hence minimizing the involvement of AI engineers responsible for building, adjusting, maintaining and refining the AI models.

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- *Transfer Learning.* Our transfer learning technology expands application of AI to industries in which data is sensitive or scarce and resolves privacy issues surrounding application of AI in fields involving sensitive data subjects. It equips our algorithms with the ability to “transfer” analysis conducted and patterns discovered in one industry or scenario to another with similarity, hence being able to provide AI solutions even where data is not readily available or accessible.
- *Environment Learning.* Our environment learning technology reduces the cost of model training and ensures safety by training models in a simulated environment. As compared to traditional simulation technologies, our environment learning technology is able to build a high-precision simulated environment without complete domain knowledge, enabling the application of intelligent decision-making technologies in more use cases.
- *AutoRL.* Our AutoRL technology automates the process of reinforcement learning, which refers to the training of machine learning models to make a sequence of decisions in a dynamic, uncertain, potentially complex environment. Our AutoRL technology provides an end-to-end and automatic suite of tools for reinforcement learning. Users are able to develop reinforcement learning algorithms without extensive prerequisite background or knowledge.

Our End-to-End Enterprise AI Solutions

Leveraging our core technologies, we have developed end-to-end enterprise AI solutions that cater for enterprises’ needs across application, platform and infrastructure levels.

Sage Platform is the backbone of our solutions. It allows enterprises to easily build their customized AI systems that automate the process of machine learning, application, decision-making and evaluation driven by our AutoML algorithms, featuring quick, simple build-up, low- and/or no-code environment, and implementation without significant involvement of AI experts.

- Sage AIOS is an AI operating system featuring user-friendly interface, standardized data processing, automated resource management and allocation and fully compatible middleware that are comparable to personal computer operating systems. Major components of Sage AIOS include data kernel and runtime kernel. Data kernel is a platform for AI data. By defining the standards and formats of data that are ready for AI applications, data kernel enables users to comprehensively enhance its data quality and modeling efficiency. Runtime kernel is a centralized management kernel for multi-layer computation, memory and communication. Runtime kernel is capable of automatically scheduling and managing heterogeneous resources without affecting user experience, thereby enhancing computation resource utilization rates, and optimize the efficiency of developing AI models and applications.

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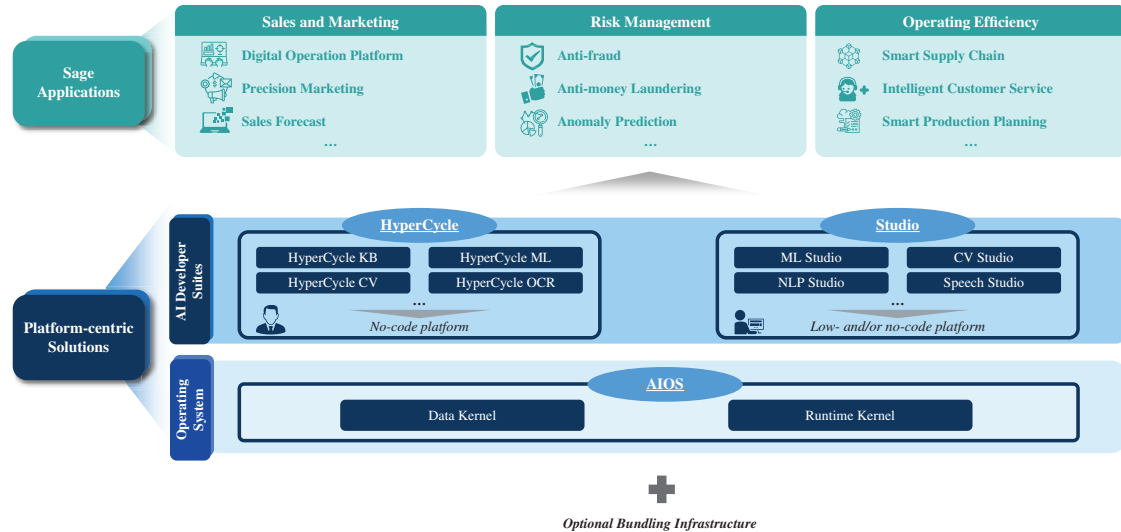
- Built on Sage AIOS, there are two AI developer suites, for which users can choose depending on their coding capabilities, one being the HyperCycle series with no-code development tool and the other one being the Sage Studio series with low-code and no-code development tools. AI applications in different use cases require different types of algorithms. Accordingly, at the users’ choice based on the types of AI applications they want to develop, we offer HyperCycle ML, HyperCycle CV, HyperCycle OCR, HyperCycle KB, ML Studio, CV Studio, NLP Studio and Speech Studio, among others.

In addition, we offer ready-to-use AI software applications that users could directly deploy to improve their business operations, primarily in the fields of sales and marketing, risk management and operating efficiency in general. Moreover, we launched our enterprise-level AI application store in June 2021, which is a marketplace for AI applications at the choice of our users. It integrates a cluster of both ready-to-use AI applications developed by us and AI applications developed by our partners in the ecosystem on Sage AIOS using our algorithms and standards, thereby addressing users’ needs for intelligent operations in different use cases. For applications developed by ecosystem partners, we also work with them to optimize the applications and to ensure compatibility with Sage Platform. As a result, relevant legal titles and intellectual property rights of such applications are jointly owned by our ecosystem partners and us. Fees charged for such applications are shared by our ecosystem partners and us at a ratio agreed by both parties. We also provide application development services and help users develop customized AI applications on Sage Platform to address their specific business needs.

Based on the needs of users, we also offer optional bundled infrastructure, which primarily represent SageOne, our software-defined “All-in-One” solutions. SageOne provides bundled “hardware + software” server infrastructure with pre-built Sage Platform and our ready-to-use AI applications, including applications developed by us and our ecosystem partners. SageOne maximizes the synergistic effect between software and hardware. Leveraging software-defined optimization of computing, network and storage resources, SageOne improves the output and performance of our AI solutions as compared to running on conventional and generalized architecture servers, thereby empowering organizations to rapidly enhance intelligence in their operations.

BUSINESS

The following diagram illustrates our solution offerings:



Our Value-oriented Strategy and Success in Commercialization

We believe that the benefits of our solutions speak for themselves. Creating value for users is a key driver of our success in commercialization.

Our go-to-market strategy starts with market leaders in each industry we target to enter who are also early adopters of AI. We demonstrate the value of our solutions through one or a few entry projects. Because of the platform-centric nature of our solutions, once our value has been proven, we are then able to expand our services quickly to address other business needs of our users. The number of our lighthouse users has increased from 32 in 2019 to 47 in 2020, and further to 75 in 2021. The number of our lighthouse users has increased from 38 in the six months ended June 30, 2021 to 74 in the six months ended June 30, 2022. Our average revenue per lighthouse user has increased from RMB8.3 million in 2019 to RMB12.3 million in 2020, and further to RMB13.7 million in 2021. For the six months ended June 30, 2022, our average revenue per lighthouse user was RMB8.9 million, as compared to RMB10.3 million for the six months ended June 30, 2021, primarily because (i) the recurrence of COVID-19 in 2022 had caused temporary disruption to our projects, to the extent that necessary on-site meetings, deployment and technical support had to be delayed or cancelled; and (ii) we acquired significant number of new users in the first half of 2022, which generally contributed lower revenue in the early stage of business cooperation.

After we succeed with the lighthouse users, we leverage our understanding of the industries, our reputation established through collaborating with industry leaders, and our AI ecosystem to further enhance our influence in such industries, enabling us to further penetrate and provide solutions to other players, without incurring significant sales and marketing efforts. Our total number of users has increased from 79 in 2019 to 156 in 2020, and further to 245 in 2021. Further, our total number of users has increased from 126 in the six months ended June 30, 2021 to 197 in the six months ended June 30, 2022.

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Our revenue is primarily based on the estimated computing power that AI applications consume on our platform. As users expand AI applications for new use cases on our platform and/or increase usage in existing use cases which require additional computing power, they will purchase additional licenses from us, which allows us to capture additional monetization opportunities. During the Track Record Period, our revenue grew by 105.0% from RMB459.5 million in 2019 to RMB942.2 million in 2020, and further by 114.2% to RMB2,018.4 million in 2021, and by 34.3% from RMB788.2 million for the six months ended June 30, 2021 to RMB1,058.2 million for the six months ended June 30, 2022.

Our AI Ecosystem

We have fostered an ecosystem over time which we believe is important to our long-term internal and external development. Our ecosystem is comprised of leading universities, software and AI companies, software developers, AI scientists, solution partners and industry leaders in a number of business sectors. Our AI ecosystem not only helps us continuously improve our technology capabilities, but also empowers users with AI knowledge and our solutions, in turn driving our success in commercialization.

Universities in our ecosystem typically have curriculums in AI, computer science, data science and big data, professors with well-recognized credentials and experience, and strong academic influence. We also cooperate with software and AI companies that have proprietary AI technologies, proven track record of commercial ion, established AI developer team and sufficient industry experience. In addition, we benefit from working with solution partners who typically have strong end-user network, and strong user connections and extensive industry experiences.

For instance, we established “Paradigm Academy” for the purpose of educating enterprises on AI. We established AutoML.ai, an open source AutoML challenge platform, which allows us to interact with and learn from top academic institutions, multinational technology companies and AI scientists in the world. We launched a “Hackathon” in 2019 to encourage companies to discover new AI application use cases and formulate AI solutions. We also partner with other leading providers of AI-enabled solutions in the PRC and around the world to establish AI laboratories, in order to explore and develop innovative AI platforms by leveraging the technical strengths and experience of different market players.

In addition, we made OpenMLDB and OpenAIOS in our Sage AIOS an open source platform to share our achievements in AI operating systems with developers across the world. We launched our enterprise-level AI application store on Sage AIOS in June 2021 which contains a cluster of AI applications developed by both us and our partners in the ecosystem, which mainly include software and AI companies in China on Sage AIOS using our algorithms and standards. The application store enriches the value of our ecosystem at the application level.

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COMPETITIVE STRENGTHS

We believe that the following competitive strengths contribute to our success and differentiate us from our competitors.

Our leading position in platform-centric enterprise AI solutions and core technologies

We were the largest player by revenue in the platform-centric decision-making AI market in China in 2021, according to the CIC Report. We were selected as a Global Representative Vendor of Composite AI in Emerging Technologies and Trends Impact Radar, and a Global Representative Vendor of AutoML in 2020 Top Ten Strategic Technology Trend by Gartner, and we also ranked No. 1 in the China Predictive and Analytics and Machine Learning in 2020 by The Forrester Wave.

We have been leading in the research of advanced AI technologies, and are the pioneer to utilize these technologies in commercial solutions. For example, Dr. Dai and Dr. Yang are the pioneers in transfer learning and are well regarded in the AI industry for their achievements and contributions in steering the direction for the research and development of transfer learning worldwide. In addition, according to CIC, our proprietary AutoML algorithm is a cutting-edge AutoML algorithm in the world, and we were the first in the world to launch a commercialized product using AutoML framework in 2014, and to apply AutoML in a number of use cases across various industry sectors. For example, according to CIC, we launched the world’s first commercialized AutoCV product in 2018. More importantly, being a first-mover means we are well ahead of our competitors in terms of efficiency and accuracy of our algorithms. Accumulation of use cases and experience over the years makes our solutions difficult, if not impossible, to be replicated by our competitors.

Our end-to-end AI solutions with strong value proposition, continuously driving user success

Our focus has always been the value we create for our users and the success of our users. Our end-to-end solutions directly address the challenges faced by enterprises in large-scale deployment of AI. We are different from point solutions providers which offer solutions in predefined use cases and specific industries, making large-scale deployment costly, time-consuming and burdensome. The low- and/or no-code nature of our solutions empowers users in any industry with or without AI experience to implement our solutions easily and rapidly without involvement of AI experts, enabling enterprises to benefit from AI transformation. Hence, we believe that our AI solutions are the key to widespread AI transformation at enterprise level. Our strong value proposition and efforts to enable user success are evidenced by the results we have achieved with our users.

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High quality, diverse and loyal user base resulting from our levered go-to-market strategy

Benefiting from a successful go-to-market strategy, we have served a large number of lighthouse users who are market leaders in the respective industries they operate, including but not limited to finance, retail, manufacturing, energy and power, telecommunications and healthcare. The purpose of this strategy is to disrupt conventional industry practices by establishing new market standards for enterprise AI implementation through collaboration with market leaders of the specific industries, hence gaining the momentum necessary to subsequently spread our influence to other users in these industries. From the users’ perspective, the massive user base covered by these market leaders amplifies the economic impact and reliability of our AI solutions, which later serve as strong proof points for other users in those industries. In 2019, 2020, 2021 and six months ended June 30, 2022, we had 32, 47, 75, 38 and 74 lighthouse users, respectively. Our lighthouse users contributed 58%, 61%, 51%, 50% and 62% of our total revenue in 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively.

AI ecosystem to ensure sustainable long-term growth

Our ecosystem connects us to a large number of academic institutions, business partners and AI scientists in China and around the world. Through our vibrant AI ecosystem, our solutions can reach a significantly larger base of end users through both in-house sales efforts and our solution partners. At the same time, we are able to stay abreast with the latest developments in AI technologies through regularly interacting with the top scientists and engineers in the field, enabling us to maintain our leadership in the core technologies. In essence, our ecosystem gives rise to synergy, value and technological advancement that would not otherwise be available if we were to rely solely on our internal R&D and customer services resources. We currently have more than 100 companies and thousands of AI scientists and developers in our ecosystem, and we will continue to expand it.

Strong, experienced and elite management combining academic excellence and business insights

Our management team is composed of both top AI scientists and business veterans. Our founder and Chief Executive Officer, Dr Dai Wen Yuan, was the first to propose the idea of a general framework for transfer learning that unifies different transfer learning problems. Prior to joining our Company, he served as Chief Research and Development Architect at Baidu, and designed one of China’s earliest AI systems that have achieved significant commercial success. Dr. Dai and Dr. Yang Qiang (our co-founder) are the pioneers in transfer learning and are well regarded in the AI industry for their achievements and contributions in steering the direction for the research and development of transfer learning worldwide. Mr. Tu Weiwei, Principal Scientist and Vice President of our Company, and is a renowned scholar in AutoML. He served as the chairperson and advisor of various international AutoML conferences and workshops, such as the AutoML workshops at the International Joint Conferences on Artificial Intelligence in 2021, the KDD in 2020, and the Conference on Neural Information Processing Systems in 2019 and 2020. Two members of our senior management, including Dr. Dai, were world champions of the International Collegiate Programming Contest (ICPC) held by the

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Association for Computing Machinery (ACM), one of the most recognized programming competitions at university level internationally. At the same time, we understand we need business talent to bring us to the path of commercialization. Hence, we also have management team members who on average have more than 10 years of management and business experience in various industries. We believe that our talent pool will keep playing key roles in fulfilling our mission as we continue to expand and attract more vision-sharing talent.

OUR STRATEGIES

We strive to achieve our long-term goal of helping enterprises achieve AI transformation. To achieve this goal, we intend to pursue the following strategies:

Further strengthen our R&D capabilities

Our success is driven by our capabilities to continuously innovate our offering and improve our underlying core technologies. As such, we will continue to invest in our research and development capabilities, particularly with respect to our core technologies, in order to reinforce our leadership position in the industry. We are also focusing on the research and development of other cutting-edge AI technologies such as federated learning technology, which entails training algorithms on local datasets of end users without exchange data samples, thus enhances data security. Moreover, in line with our strategy to create solutions that are easy to use, we intend to introduce additional features and functionalities to our solutions and enrich our pre-built application portfolio such that more users within an organization could easily benefit from our AI solutions.

We also intend to expand our talent pool of data scientists and AI engineers as well as industry vertical veterans on a continuous basis. We believe that qualified and experienced data scientists and AI engineers are crucial to sustain our leadership in the core technologies and the ongoing refinement of our algorithms, platforms and operating systems. We also plans to retain our existing talent pool by offering competitive compensation. In addition, we seek to fully leverage the industry knowledge and experience of these veterans to help us design AI solutions to specifically address future challenges in those industries ahead of time. In addition, we also plan to strengthen our R&D capabilities by establishing new R&D centers, procuring additional high performance servers, among others. See also “Future Plans and Use of [REDACTED].”

Continue to create value for users and establish industry standards

We plan to further our “go-to-market” strategy and continue to create value for our users. We expect our users to continue to expand the number of use cases utilizing our platform-centric solutions, helping us to continuously acquire valuable experience and industry know-how which further set us apart from our competitors. As our existing users (plenty of which are lighthouse users) benefit from our solutions in more and more use cases, we will naturally be able to establish industry standards and attract more new users both in existing verticals and new verticals.

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Strengthen collaboration with business partners within our ecosystem

We will continue to empower and work with market leaders as well as our partners within our ecosystem to develop vertical solutions with industry best practices, which will help us continue to build up industry know-how and domain knowledge. We aim to strengthen our relationships with solution partners to retain and expand our user base across various industries. We also partner with our hardware suppliers to produce industry-tailored integrated solutions – all in an effort to enhance user stickiness of our solutions. We plan to continue investing in our ecosystem to attract more use cases utilizing our solutions, bring greater awareness of our solutions, drive our user net dollar expansion rate and broaden our distribution footprint across both vertical and horizontal markets.

Enhance our commercialization capabilities

To further strengthen our commercialization capabilities, we intend to expand our in-house sales and marketing team by recruiting additional talents with experiences in both sales and marketing and other industries. We believe that these talents can better understand the business needs of potential users of our solutions, and thus help us create value for users. We will also promote our solutions and offerings by engaging in more marketing activities through both offline and online channels. In addition, we plan to expand our user base, enhancing the penetration of our solutions. Furthermore, we also plan to pursue strategic investments and acquisitions that are complementary to our business to strengthen our R&D and deployment capabilities, optimize our solutions and expand our user base.

OUR ENTERPRISE AI SOLUTIONS

Driven by our mission to empower AI transformation and advance AI for all businesses, we have developed Sage Platform, a full suite of end-to-end AI solutions that can be rapidly deployed by enterprises on a large scale to uncover hidden patterns in data and facilitate decision-making beyond human capability. Our innovative Sage Platform empowers enterprises with AI development and management capabilities, and enables them to design, develop and operate AI applications at scale. The plug-and-play and low- and/or no-code nature of Sage Platform lowers the barrier of AI deployment, enabling large-scale deployment within a few days and without involvement of experts or other personnel with significant experience in AI. Sage Platform is primarily composed of (i) an AI operating system, and (ii) AI developer suites, including HyperCycle and Sage Studio.

On top of our Sage Platform, we also offer a large and growing portfolio of scenario-specific AI applications that address a range of mission-critical use cases and can be readily installed and deployed. At our users’ request, we also offer application development services to help them develop customized AI applications on Sage Platform based on their business needs.

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Sage Platform

Sage AIOS

Sage AIOS is an enterprise-level AI operating system. As a flexible, secured and open platform, the role of Sage AIOS is analogous to Window’s role for personal computers. It connects the underlying IT infrastructure and various AI applications, and provides enterprises with high concurrency, performance and availability to support the development and launch of AI applications. Based on multiple versions of products and underlying technology previously developed by us, we officially launched Sage AIOS in August 2020, an upgraded and integrated AI operating system with expanded features. Specifically, Sage AIOS provides a more user-friendly interface to visualize AI application development and management. Characterized by its user-friendly interface on which users can easily and conveniently design, develop and operate numerous AI applications, Sage AIOS is able to empower enterprises to deploy AI on a large scale. In addition, as compared to the earlier versions, Sage AIOS standardizes the formats of AI data and resources management, thereby further enhancing the efficiency of AI deployment on a large scale. The earlier versions of Sage Platform only supports our proprietary AI developer suites and self-developed applications, while Sage AIOS is able to support applications developed by other parties, and thus enhances our AI ecosystem.



AI operating systems need to address various difficulties in terms of data quality, modeling efficiency, and computing power management and scheduling in the adoption of AI applications. Powered by its data kernel and runtime kernel, Sage AIOS is able to address these needs.

Data Kernel

Data kernel is a platform for AI data. By defining the standards and formats of data that are ready for AI applications, data kernel enables users to comprehensively enhance its data quality and modeling efficiency. Moreover, our data kernel synchronizes data from different sources to ensure consistency. Our data kernel also enables the chronology of data using strict

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timestamps, which marks the time when data is generated and processed. Moreover, it applies closed-loop feedback mechanism in the modeling process by constantly providing feedback of newly generated business data to train models in real time, thereby enhancing its effectiveness. In addition, our data kernel offers functions such as centralized management for data source, storage and processing, addressing the data-related needs for enterprises in developing AI applications. The key component of data kernel is our OpenMLDB, an open-source database designed and optimized to enable data correctness and efficiency for machine-learning-driven applications.

Runtime Kernel

Runtime kernel is a centralized management kernel for multi-layer computation, memory and communication. Leveraging our proprietary container freeze and migration technologies, our runtime kernel is capable of automatically scheduling and managing heterogeneous resources without affecting user experience, thereby enhancing computation resource utilization rates, and optimize the efficiency of developing AI models and applications. The key component of runtime kernel is OpenAIOS, which is able to automatically coordinate AI tasks among heterogeneous devices. Key features of our runtime kernel include:

- *High performance.* Our runtime kernel is able to automatically split tasks for parallel computation, and use different designated computing chips to further accelerate processing, thereby improving the performance of current AI computing framework by 500%, according to CIC.
- *Cost effective.* Our runtime kernel is able to expand memory size through an automatic scaling strategy without modifying of the existing applications and codes. As a result, we are able to reduce the overall memory cost while increasing the success rate of tasks, thereby reducing the TCO for current AI data processing engines by 90%, according to CIC.
- *High utilization rate.* Our runtime kernel is able to offer a low-latency and high-throughput communication framework in the process of machine learning. Combined with our device virtualization technologies, our runtime kernel is able to enhance GPU utilization rate by ten times as compared to other mainstream scheduling frameworks, according to CIC.

AI Developer Suites

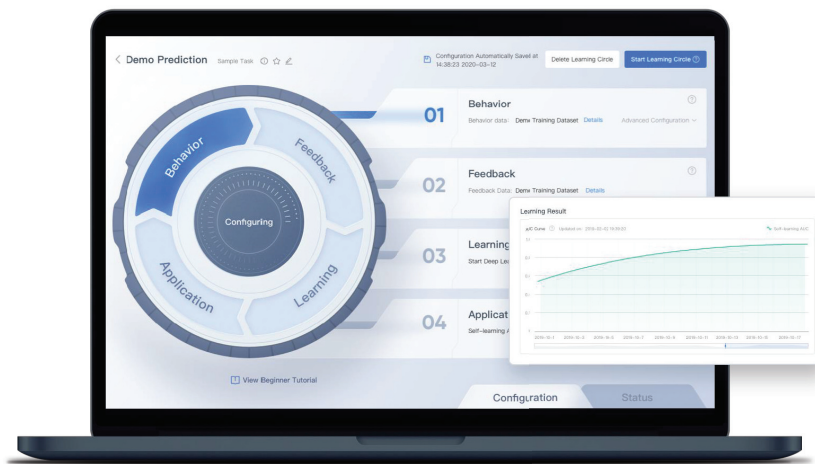
We offer AI developer suites equipped with various development tools to enterprises, assisting them to design and develop AI applications. Based on the needs and background of users, we provide (i) HyperCycle with no-code development tools and (ii) Sage Studio with low-code and no-code development tools.

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HyperCycle

HyperCycle is an AI development platform that helps enterprises rapidly design, develop and utilize AI applications. Because of its no-code feature, HyperCycle lowers the barrier to deploy AI by enterprises in their various business operations as developing AI solutions on the platform does not require any knowledge or experience in AI, enabling them to develop standard AI applications at scale.

We have introduced the HyperCycle methodology which simplifies and standardizes the AI deployment process into four steps, namely behavior, feedback, learning and application. As a result, we are able to lower the barrier of quickly applying AI technologies at scale, empowering the intelligent transformation of organizations.



HyperCycle automatically builds, applies and updates machine learning models throughout the entire development process. Leveraging HyperCycle, users are able to easily develop AI applications within simple clicks on the graphical user interface. HyperCycle provides users with APIs, through which users can connect HyperCycle with their business and operating systems. Then, they configure the parameters for the modeling process, such as the scope of data for learning, the scope of data for evaluation and level of computing power. Once the parameters are set, users can launch the modeling process by a simple click, which will automatically process and analyze the data input, optimize and iterate models, and develop AI applications powered by our AutoML algorithms.

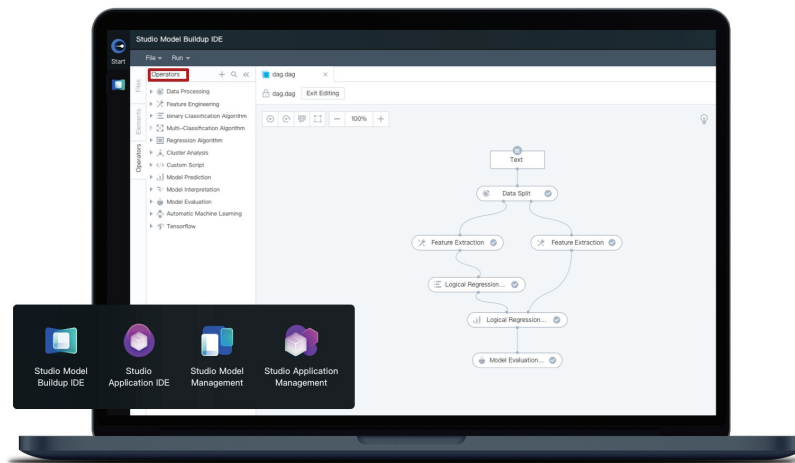
AI applications in different use cases require different types of algorithms. Accordingly, we offer HyperCycle ML, HyperCycle CV, HyperCycle OCR and HyperCycle KB at the users' choice based on the types of AI applications they want to develop. HyperCycle ML is an automated machine learning platform for general AI applications. HyperCycle CV is designed for computer vision algorithms and supports image categorization, target detection and other use cases. HyperCycle OCR is an optical character recognition platform with AI-empowered handwritten text, card and bill recognition capabilities. HyperCycle KB is designed for the development of knowledge base-related applications.

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With our proprietary AutoML technologies and guided by the HyperCycle methodology, HyperCycle achieves automatic machine learning of real-time closed-loop data, continuously optimizing and enhancing the performance of algorithm training models. Leveraging world-class capabilities of automatic modeling, real-time deployment and closed-loop data, HyperCycle improves efficiency and reduces labor and IT cost for the development and application of AI technologies.

Sage Studio

Sage Studio is an end-to-end AI application development platform for developers, assisting them to develop AI applications. At users’ choices, it provides standard, low-code and no-code AI development tools. Sage Studio is able to cover the entire development process from data to model, application, and the deployment and launching of AI applications. Featured with drag and pull development tools, Sage Studio is able to provide one-stop application development and launch management in the fields of machine learning, computer vision, natural language processing and speech, among others.



Key modules of Sage Studio include (i) model exploration, (ii) model management, (iii) application development and (iv) application management. The model exploration module structures and modularizes model training, and offers a series of operating modules (“operator”) for coding, running, data visualization and result feedback. According to CIC, most of the existing machine learning platforms lack the capabilities to support development of AI applications in various scenarios or to ensure performance when processing large data volumes. Sage Studio defines the standards for each operator during the modeling process for AI application in different scenarios, and offers high compatibility. By integrating multiple self-developed AI algorithms, Sage Studio enables users to process massive volumes of data without compromising performance.

Similar to HyperCycle, Sage Studio provides users with APIs, through which users can connect Sage Studio with their business and operating systems. We offer various pre-set templates of flow process and algorithms, enabling developers to design AI models through drag and pull. Supported by our self-developed GDBT framework, a distributed parallel computing framework designed for machine learning computation tasks, we offer a large number of machine learning algorithms for different use cases. As a result, Sage Studio is able to enhance computing power efficiency for machine learning with massive data volume, thereby reducing the total cost of ownership of our users as they scale.

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Furthermore, Sage Studio’s application development module empowers users with the tools to design, develop, test and launch AI applications with various functions, including self-learning, batch forecasting and real-time forecasting. As an open platform, Sage Studio is compatible with various mainstream AI frameworks and algorithms, enabling users to achieve customized development and integration of AI applications in a rapid and cost-effective manner. Sage Studio also provides centralized management capabilities for models and applications from different sources.

Illustrative Example of AI Application Development through HyperCycle ML

Below is an illustrative example of how a hypothetical bank can easily and rapidly deploy customized AI applications through HyperCycle ML:

1. The bank intends to recommend suitable financial products to its mobile bank APP users real-time by developing a precise recommendation model. The first step is to select a suitable template from the homepage of HyperCycle ML.



Choosing suitable AI application templates from homepage



Summary of stages of AI application development

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- The bank then needs to input (i) behavior data, such as user information, financial product information and sales record, and (ii) feedback data, being historical purchase decisions made by users.



Input behavior/feedback data

- After relevant parameters are confirmed and learning process is activated, machine will automatically choose the optimal algorithms and start to generate AI models.



Summary of sources of behavior data, feedback data, supplementary data and other relevant parameters



Progress of machine learning

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- After machine learning is completed, the bank’s precise recommendation model is launched by just one click.



Launch of precision recommendation model after completion of machine learning

Sage Applications

On top of our Sage Platform, we also offer a large and growing portfolio of scenario-specific AI applications that address a range of mission-critical use cases and can be readily installed and deployed. Moreover, we launched our enterprise-level AI application store, which is a marketplace for AI applications at the choice of our users. It integrates and is compatible with a cluster of AI applications developed by both us and our partners in the ecosystem on Sage AIOS using our algorithms and standards, thereby addressing users’ needs for intelligent operations in different use cases.

Based on their functions, our Sage Applications are primarily categorized into (i) sales and marketing, (ii) risk management and (iii) operating efficiency applications. The following table sets forth details of our major Sage Applications:

Category	Application	Features
Sales and Marketing	Digital operation platform	We offer a digital operation platform which comprises smart recommendation, smart search, smart push, smart customer service, data governance and other functions. It enables organizations to refine their online operations, optimize user experience and retain their users, and achieve business growth. Empowering organizations with AI technologies, it effectively optimizes the operation of users, which can be reflected in their key operating metrics such as retention rate, repurchase rate, average transaction value and gross merchandise value, among others.

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Category	Application	Features
	Precision marketing	Powered by AI technologies in various scenarios such as recommendations, marketing, maintaining user engagement, user portraits, forecasting, user acquisition and pricing, our precision marketing solution enables organizations to analyze sales statistics and configure marketing strategy, analyze sales statistics, and thereby increase their sales.
	Sales forecasting	Our sales forecasting solution analyzes various types of operating data, including sales, store, marketing, environment and location data. Utilizing our AI technologies, it automatically summarizes rules for sales forecasting, and is able to accurately predict sales volume, sales value and sales flow from store level to SKU level. As a result, we empower users to formulate sales strategies, and to optimize inventory and store location planning.
	Anti-fraud	We offer an end-to-end intelligent anti-fraud platform to empower organizations with AI technologies to solve various kinds of risk and fraudulent events. By combining machine learning technology and traditional expert rules, we help users improve the overall accuracy and scope of risk management and anti-fraud management.
	Anti-money laundering	Our anti-money laundering solution is able to intelligently identify, analyze and report suspicious transactions and to sort the flagged transactions according to risk level to improve the efficiency of human review. It also addresses the problems of ‘omission’ and ‘overstatement’ of traditional anti-money laundering methods.
Risk Management		

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Category	Application	Features
	Anomaly Prediction	Our anomaly prediction application is able to identify unexpected projects, events or observations, and thereby provide early warnings and trend predictions through data mining. It can be applied in detection and prediction of banking frauds, equipment faults and text errors.
Operating Efficiency	Smart supply chain	By analyzing consumers’ needs and combining with our sales forecasting application, our smart supply chain solution helps enterprises to manage manufacturing, distribution, stocking and warehousing. We believe that this smart supply chain solution is able to empower a number of industries in which accurate pricing, procurement and distribution are key to success, as enterprises rely more and more heavily on AI to make accurate and timely procurement decisions.
	Intelligent customer service	We offer a conversational AI chatbot developed based on deep learning technologies, featuring self-learning, natural language understanding, knowledge graph, intelligent Q&A, task dialogues and other core functions. During communications with end users, the chatbot can carry out self-learning according to the feedback from users, and adjust the communication strategy and the communication result. Our intelligent customer service help organizations reduce costs associated with manual customer services.
	Smart Production Planning	By offering the smart production planning application, we help users make optimized production plans. Powered by AI technologies, it formulates daily production plan for each product line based on users’ orders, manufacturing capacity, manufacturing techniques and raw materials, enhancing their cost efficiency.

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Furthermore, at our users’ request, we also offer application development services to help them develop customized AI applications on Sage Platform based on their specific business needs. For users who have not purchased Sage Platform, customized applications are developed on our Sage Platform, and the applications are then delivered to users. Such applications cannot be altered by the users, while users for Sage Platform are able to alter, update and manage AI models and applications on the platform.

REVENUE MODEL

We generate our revenue primarily from (i) Sage Platform and applications, which are charged based on estimated computing power consumption, and (ii) application development and other services which primarily include application development services to help them develop customized AI applications on Sage Platform based on their business need. Computing power consumption is estimated based on data volume, and complexity or dimensions of the AI models. The following table illustrates the details of our solutions:

Category	Deployment	Pricing
Sage Platform and applications	License of software installed on-premise at users’ servers	Based on estimated computing power consumption – license fees
	SageOne (software-defined “All-in-One” solutions with pre-built Sage Platform and applications on servers and other related hardware)	Based on estimated computing power consumption – purchase price charged based on the number of units of SageOne, and taking into account of license
Application development and other services	N/A	Project-based – taking into account the manpower consumption of the relevant services

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The following table sets forth a breakdown of our revenues by types of solutions for the years/periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(unaudited)									
	(RMB in thousands, except for percentages)									
Sage Platform and applications										
Software licensing	64,656	14.1	157,888	16.8	356,156	17.6	106,025	13.5	229,120	21.7
SageOne	189,440	41.2	461,041	48.9	658,398	32.7	270,142	34.2	302,317	28.5
Sub-total	254,096	55.3	618,929	65.7	1,014,554	50.3	376,167	47.7	531,437	50.2
Application development and other services										
	205,422	44.7	323,309	34.3	1,003,845	49.7	412,038	52.3	526,787	49.8
Total	459,518	100.0	942,238	100.0	2,018,399	100.0	788,205	100.0	1,058,224	100.0

As a platform-centric AI solution provider, we have been dedicated to updating our solutions to provide end users across different industries with unified development environment, standards and rules and to enhance the compatibility of our solutions. As a result of our continuous iteration and optimization efforts, Sage Platform can be generally applied by end users in different industries which do not require significant customization. Our total revenue increased by 105.0% from RMB459.5 million in 2019 to RMB942.2 million in 2020, primarily driven by the expansion in our number of users from 79 in 2019 to 156 in 2020 and the increased spending of our users, especially the spending of our lighthouse users, evidenced by the increase of our average revenue per lighthouse user from RMB8.3 million in the 2019 to RMB12.3 million in 2020. Our revenue generated from Sage Platform and applications as a percentage of total revenue increased from 55.3% in 2019 to 65.7% in 2020, primarily because (i) we started the comprehensive commercialization of SageOne in June 2019 and our user base for SageOne has been expanding as it becomes increasingly well received by users, and (ii) revenue generated from application development and other services as a percentage of our total revenue decreased due to the negative impact of restrictive policies in response to the outbreak of COVID-19, which made it difficult for us to provide on-site services to our customers. Our total revenue increased by 114.2% from RMB942.2 million in 2020 to RMB2,018.4 million in 2021, primarily driven by expansion in our number of users from 156 in 2020 to 245 in 2021 and the increased spending of our users, especially the spending of our lighthouse users, evidenced by the increase of our average revenue per lighthouse user from RMB12.3 million in 2020 to RMB13.7 million in 2021. Our revenue generated from Sage Platform and applications as a percentage of our total revenue decreased from 65.7% in 2020 to 50.3% in 2021, as the percentage of total revenue attributed to our application development and other services increased over the same years, primarily driven by the increased demand for

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customized AI applications due to the expansion of our user base in 2021. The number of users for our application development and other services increased from 68 in 2020 to 139 in 2021. To a lesser extent, the increase of revenue contribution by our application development and other services was also attributable to the recovery from negative impact of COVID-19. Our total revenue increased by 34.3% from RMB788.2 million in the six months ended June 30, 2021 to RMB1,058.2 million in the six months ended June 30, 2022, primarily driven by expansion in our number of users from 126 in the six months ended June 30, 2021 to 197 in the six months ended June 30, 2022. Our revenue generated from Sage Platform and applications as a percentage of our total revenue increased from 47.7% in the six months ended June 30, 2021 to 50.2% in the six months ended June 30, 2022, primarily due to the increase of revenue contribution of software licensing, which requires less on-site services than our other segments, and thus was less affected by the recurrence of COVID-19 in 2022.

Sage Platform and Applications

The Sage Platform and applications are delivered primarily through (i) license of software installed on-premise at servers of our end users and (ii) SageOne, our “All-in-One” solutions with pre-installed software on servers and other related hardware, both of which allow our users to develop their own AI applications on Sage Platform. Our Sage Platform and applications are offered as a bundle. Users select the types of Sage Platform and applications and the delivery method based on their needs.

Our Sage Platform and applications are primarily offered through software license and sale of SageOne, rather than on a subscription basis. We are dedicated to creating value for users and addressing their business needs with our solutions. After we help them identify the critical issues, provide solutions and achieve the objectives of business improvement, they will make repeated purchases from us after identifying incremental business needs for AI application within their operations, and expanding their use of our solutions. As our users develop more AI applications for new use cases on our platform and/or increase usage in existing use cases which require more computing power, they will need to purchase additional licenses from us for additional computing power, which in turn allows us to capture additional monetization opportunities on a recurring basis. Our ability to create value for users is evidenced by a net dollar expansion rate of 250%, 167% and 140% for our lighthouse users in 2019, 2020 and 2021, respectively. The pricing of Sage Platform and applications are primarily based on the estimated computing power consumption. Based on communications with users, we understand their business needs and estimate the computing power consumption based on the complexity of the use cases, dimensions of the AI models, and the estimated amount of data involved therein.

- The price of our software license is primarily based on the estimated computing power consumption by reference to the AI applications our users plan to deploy. We consider data volume and other specific requests such as the latency, concurrency, queries per seconds, and the number of replicas, among others.

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- To complement the sales of software, we also offer SageOne, our software-defined “All-in-One” solutions with pre-built Sage Platform and applications on servers and other related hardware. We charge customers of SageOne by taking into account the number of hardware units, license fees of our software and cost of hardware based on respective model. Hardware units of SageOne refer to units of different models of servers.

We closely communicate with our users to understand their specific business needs for AI deployment in order to estimate the amount of computing power that will be consumed by such clients. Computing power consumption is primarily measured as the number of CPU cores of servers needed to support our software. For software license, we provide software to be installed on-premise at servers of our end users. For SageOne, we offer hardware with pre-built Sage Platform and applications.

In general, computing power consumption is estimated based on a variety of considerations in relation to the specific use cases and applications that users intend to develop. Key considerations include (i) estimated data volume, queries per second (being the number of times a request is sent per second), concurrency (being the number of concurrent tasks) and number of replica (being the number of copies of data), (ii) types of AI algorithms (such as content recommendation, forecasting, fraud detection, etc.), and (iii) other use case-specific requests (such as whether the user is developing an online or offline application, or whether the analytics is real-time or delayed, etc.). In addition to the key parameters, our estimated computing power consumption is also, to a lesser extent, affected by other additional parameters such as the estimated network gateway, latency, the complexity of feature engineering, among others. Typically, more computing power is required for applications with larger data volume, more requirements on other parameters, more complex algorithms and certain specific features such as real-time analytics.

- For software license, we charge customers software license fees based on the required number of CPU cores multiplied by the agreed license fee for each CPU core.
- For SageOne, based on the estimated computing power consumption and the optimisation effect that could be realised our hardware, we propose to our clients the appropriate model, configuration and number of hardware required for their needs. Price for SageOne is charged based on the number of hardware units, which already covers the license fees for our software. As a result, the price for hardware units may vary significantly based on the configuration of hardware selected by the users. As users are increasingly selecting more advanced servers with higher performance to meet their growing business needs, the price for our Sage One solutions have increased during the Track Record Period.

We also provide pricing adjustments to our clients based on a myriad of factors including spending budgets of clients, business relationship and market conditions. When users have additional needs for our solutions which will require more computing power, they shall purchase additional licenses for our software to be installed on more CPU cores or additional units of hardware accordingly.

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In 2019, 2020, 2021 and the six months ended June 30, 2022, the number of our users for software licensing was 29, 70, 96 and 51, respectively, and average revenue per user was RMB2.2 million, RMB2.3 million, RMB3.6 million and RMB4.5 million, respectively. Driven by our comprehensive commercialization of SageOne, in 2019, 2020, 2021 and the six months ended June 30, 2022, the number of our users for SageOne was 32, 57, 66 and 42, respectively, and average revenue per user was RMB5.9 million, RMB8.1 million, RMB8.8 million and RMB7.2 million, respectively. We have experienced significant growth in the number of users for our software licensing and SageOne during the Track Record Period, primarily due to our effective go-to-market strategy and business expansion efforts. The average revenue per user for our software licensing and SageOne also increased rapidly from 2019 to 2021, which was mainly due to their increased spending of our solutions as they identify incremental business needs for AI within their operations and expand their use of our solutions, reflecting our continuous value creation to users.

Application Development and Other Services

At our users’ request, we primarily offer application development services to help them develop customized AI applications on Sage Platform based on their business needs. We charge them on a project basis, the pricing of which is primarily based on the manpower consumption of the relevant services. As our users’ demand for AI applications increases with their business expansion, they will continue to procure our application development services, allowing us to capture more service fees on an on-going basis.

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USE CASES OF OUR SOLUTIONS

We emphasize value creation. At our users’ request and based on their business needs, we work closely with users and help them develop scenario-specific AI applications. Our solutions have created value for enterprises in a myriad of industries, including, but not limited to finance, retail, manufacturing, energy and power, media, education, technology, telecommunications and healthcare. The following sets forth certain examples of the key use cases of our solutions:

AI + Finance

According to CIC, the strategy of customer-centered cost optimization and risk control in the finance industry is getting increasingly important. Our AI solutions help financial institutions achieve enhanced customer marketing management, internal operation optimization and risk control while increasing income and reducing expenditure. Since we first entered into the finance sector in 2015, we have served many of China’s large state-owned banks and joint stock banks, and other financial institutions such as securities companies and insurance companies.

Case study

Bank A is one of the largest state-owned banks in China. We started our collaboration with Bank A since 2017 and have maintained a close business relationship with it ever since. We provided Bank A with Sage Platform through both software licensing and SageOne, and offered application development services. Due to its massive number of transactions, Bank A has devoted significant resources to identifying and preventing fraudulent activities. We help Bank A establish risk control AI models by analyzing its users’ historical transaction information, current transaction information and other relevant data, enabling Bank A to unveil the risks behind each transaction more effectively. According to the results of an internal test, the accuracy of our AI fraudulent detection model is approximately 83%, which is over three times more accurate than Bank A’s original model based on expert rules before using our solution.

Specifically, to identify and prevent fraudulent transactions, we helped Bank A develop AI applications to estimate the potential fraudulent risks. Utilizing Sage Studio, Bank A analyses data such as transaction records, historical fraudulent transactions, account information, among others. Using Sage Studio, Bank A extracts the characteristics from such data and re-combines them for model training. Powered by our AutoML technology, we help Bank A train the anti-fraud model using logic regression algorithms, which improve the reliability of model training in scenarios with large amount of discrete variables. Our Sage Studio successfully helped Bank A establish a machine learning model, and enabled Bank A to develop anti-fraud applications to automatically identify and prevent fraudulent transactions with AI capabilities. Bank A is able to easily launch and manage its AI applications on Sage AIOS.

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AI + Retail

We help retail enterprises build an overall decision-making framework supported by our AI technologies, empowering them to formulate operational strategies based on users’ business needs. We enable AI transformation of the entire business process of users, optimizing their decision-making process and operational efficiency.

Case study

Company X is a famous chain store operator, and has used our solutions since 2019 as part of its digital transformation strategy. We provided Company X with Sage Platform through both software licensing and SageOne, and offered application development services. Utilizing our AI-enabled sales and marketing solutions, we empower Company X with big data analytics capabilities to formulate precision marketing strategies and deploy AI at scale. Based on the preferences of different users, our solutions enable Company X to make real-time and personalized recommendations for promotion activities. Utilizing Sage Platform, Company X analyses its user information for model training, such as purchase orders, products added to shipping carts and efficacy of historical product recommendations. Powered by our AutoML technology, our AI developer suites help Company X develop a personalized recommendation engine to predict user preferences and make targeted recommendations and promotions accordingly. The effectiveness of our solutions is evidenced by the increase in Company’s per customer transaction amount by 2%, and the increase in its total sales amount by hundreds of millions of RMB.

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AI + Manufacturing

We enable AI transformation across the entire manufacturing process, thereby helping our users optimize quality control, arrange and manage manufacturing schedules, and identify errors and defects.

Case study

Company Y is one of the largest lithium-ion battery manufacturers in the world. Their products are widely used in electronic vehicles (“EV”) and energy storage facilities. We have developed a strategic partnership with Company Y since 2020. We provided Company Y with Sage Platform through both software licensing and SageOne, and offered application development services. Company Y is seeking to upgrade their factories and ensure product safety with AI technologies to maintain their competitive edges. We offered Sage Platform as their main infrastructure for large-scale AI applications, supporting various AI application scenarios, such as computer vision quality inspection and equipment controlling. Our Sage AIOS enables Company Y to better manage the massive amount of operational data. Such data is extracted and analyzed by our AI developer suites to discover the patterns which can be applied in optimizing Company Y’s product quality, production safety and customer service quality, among others. In addition, Sage AIOS enables Company Y to easily launch and manage its AI applications at a large scale. Furthermore, our AI scientists are working with Company Y on AI-powered predictive analysis of product safety, trying to address one of the most difficult challenges faced by the EV industry.

AI + Energy and Power

Using big data and machine learning technologies, we enable users to enhance operation safety and reliability, better manage equipment and other assets, and identify and prevent market risks.

Case study

Company Z operates a large-scale hydropower in China. To ensure safety operation, Company Z established over 100,000 inspection points. Its inspection staff need to closely monitor thousands of variable operating data on a daily basis. Company Z endeavors to effectively identify risks, make predictions and early warnings, and enhance decision making from such data.

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We started collaboration with Company Z in 2019. We provided Company Z with Sage Platform through SageOne, and offered application development services. Utilizing our Sage Platform, Company Z developed a forecasting model utilizing historical data such as the temperatures of rotors and bearing bush. Leveraging our AI developer suites, Company Z discovers the correlation among the operating condition of equipment and temperatures of rotors and bearing. Such correlation will be changed in the event of anomaly. Therefore, our solutions enable Company Z to efficiently monitor operation safety and enhance the accuracy and timeliness of anomaly alerting. Benefiting from our solutions, Company Z increased its accuracy of anomaly alerting by more than two times. As a result, Company Z is able to identify and prevent equipment errors and avoid significant losses arising from operation disruptions. We also assist Company Z to establish a data-driven decision making mechanism, ensuring long-term stability of its core business operations. In addition, Sage AIOS enables Company Z to easily launch and manage its AI applications at a large scale.

BUSINESS SUSTAINABILITY AND PATH TO PROFITABILITY

Introduction

We were loss-making during the Track Record Period. In 2019, 2020, 2021 and the six months ended June 30, 2022, we incurred net loss of RMB718.2 million, RMB750.2 million, RMB1,802.1 million and RMB583.8 million, respectively. The net losses were primarily due to the substantial amount of: (i) research and development expenses incurred to develop and enhance our solutions and technology stacks, see “– Research and Development,” (ii) selling and marketing expenses incurred to increase our brand awareness and expand our user base, (iii) general and administrative expenses, which are mainly attributable to share-based compensation paid to our employees, and (iv) interest expense on redemption liabilities in relation to certain non-recurring preferred rights granted to our investors, which is non-recurring in nature. In 2019, 2020, 2021 and the six months ended June 30, 2022, our adjusted net loss (a non-IFRS measure), which is defined as loss for the year by adding back share-based compensation, interest expense on redemption liabilities and [REDACTED] expenses, amounted to RMB322.5 million, RMB390.3 million, RMB559.1 million and RMB203.9 million, respectively. As we are still at a relatively early stage of our monetization efforts, we have been focusing on continuously optimizing our solutions and expanding our user base.

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We plan to continue to enhance our financial performance by (i) effectively attracting and retaining our users, (ii) continuing to create value for users to further monetize our solutions, and (iii) effectively managing our cost and expenses, and enhancing operating leverage. Despite our continued expansion in user base, increase in average revenue per lighthouse user and enhanced capability to manage our cost and expenses, **we may continue to incur net losses and net operating cash outflow in the near future, including the year ending December 31, 2022**, mainly due to our continued investments in research and development of our technologies and solutions, marketing initiatives as well as share-based compensation.

Effectively attracting and retaining our users

Effectively attracting and retaining our users is crucial to driving revenue growths, and ultimately our ability to achieve profitability. The following table sets forth the numbers of our users and lighthouse users for the years/periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
Number of users	79	156	245	126	197
Number of lighthouse users					
for the previous year	18	32	47	N/A	N/A
Additions	20	21	33	N/A	N/A
Less ⁽¹⁾	6	6	5	N/A	N/A
Number of lighthouse users					
for the year/period	32	47	75	38	74

Note:

- (1) Refers to lighthouse users in the previous year that ceased to be regarded as our lighthouse users in the given year. However, the business relationship with such users has not been terminated. We have been providing ongoing supporting services to such lighthouse users under our standard service arrangement. Such users ceased to be our lighthouse users in the given year solely because we did not generate revenue from such users in such year from an accounting perspective.

As a result of our effective go-to-market strategy, we had 32, 47, 75, 38 and 74 lighthouse users in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. In 2019, 2020 and 2021, we acquired 20, 21 and 33 new lighthouse users, respectively, illustrating the value of our solutions and our ability to expand our business. Our lighthouse users contributed 58%, 61%, 51%, 50% and 62% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. Therefore, growth in revenue from lighthouse users is a key driver in our overall revenue growth. Moreover, our expanding base of lighthouse users also help us to attract other users, which in turn further drives our revenue growth. Our initial success with lighthouse users enables us to further penetrate the respective industry and provide solutions to other players in the industry efficiently. As a result, we have accumulated a strong and rapidly growing total user base including both lighthouse users and other users, with 79, 156, 245, 126 and 197 in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. The effectiveness of our go-to-market strategy is evidenced by the rapid growth in the number of other users during the Track Record Period, representing

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a CAGR of 90.2% from 2019 to 2021, as compared to a CAGR of 53.1% for lighthouse users during the same periods, reflecting our ability to penetrate into a larger user base following initial success with lighthouse users.

We plan to further implement our “go-to-market” strategy by strengthening our relationships with lighthouse users and further penetrate into a larger user base. We also work closely with third-party solution partners and leverage their understanding of end users’ demands, thereby developing tailored marketing strategies and to acquire more users. As our existing users (plenty of which are lighthouse users) benefit from our solutions in more and more use cases, we will naturally be able to establish industry standards and attract more new users both in existing verticals and new verticals. We are able to leverage our experience and success in existing industry and scenario to expand into new industries with similar scenario. For example, successes in intelligent recommendation scenario in the restaurant industry can be leveraged when we are entering into other industries, such as fashion, which also have demands for intelligent recommendation. In addition, we will further optimize and enhance the functions of our solutions so that they can be applied in new scenarios and verticals. Moreover, we plan to recruit and retain talents with in-depth industry knowledge to strengthen our sales and marketing team, thereby leveraging their industry-specific sales experiences to expand users in new industries.

Continuing to create value for users to further monetize our solutions

We are dedicated to creating value to our users. As a result, we are able to explore additional monetization opportunities to help us scale up our revenues and to achieve profitability.

We plan to continue to create value for users and address their business needs by optimizing our solutions, innovating our technologies, providing satisfying customer services, among others. After we help them identify the critical issues, provide solutions and achieve the objectives of business improvement, they usually identify incremental business needs for AI within their operations and expand their use of our solutions. Moreover, as our users develop more AI applications for new use cases on our platform and/or increase usage in existing use cases which require more computing power, they will need to purchase additional licenses from us for additional computing power, which in turn allows us to capture additional monetization opportunities after the initial sale. Our ability to create value for users is evidenced by a net dollar expansion rate of 250%, 167% and 140% for our lighthouse users in 2019, 2020 and 2021, respectively. Moreover, the average revenue per lighthouse user amounted to RMB8.3 million, RMB12.3 million, RMB13.7 million, RMB10.3 million and RMB8.9 million in 2019, 2020, 2021 and in the six months ended June 30, 2021 and 2022, respectively, illustrating our ability to further monetize our solutions. For the years ended December 31, 2019, 2020 and 2021, our revenue generated from existing lighthouse users amounted to RMB177.1 million, RMB445.8 million and RMB808.2 million, respectively, representing 66.4%, 77.0% and 78.5% of total revenue generated from lighthouse end users for the same periods, respectively. Driven by our successful value creation for lighthouse users, our overall average revenue per user amounted to RMB5.7 million, RMB5.8 million, RMB6.9 million, RMB5.6 million and RMB5.4 million in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. For the six months ended June 30, 2022, our average revenue per lighthouse user and our overall average revenue per user were RMB8.9 million and RMB5.4 million,

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respectively, as compared to RMB10.3 million and RMB5.6 million for the six months ended June 30, 2021, primarily because (i) the recurrence of COVID-19 in 2022 had caused temporary disruption to our projects, to the extent that necessary on-site meetings, deployment and technical support had to be delayed or cancelled; and (ii) we acquired significant number of new users in the first half of 2022, which generally contributed lower revenue in the early stage of business cooperation.

Effectively managing our cost and expenses, and enhancing operating leverage

Our ability to manage and control our costs and operating expenses is critical to the success of our business and our profitability.

Our cost structure is affected by the mix of our solution offerings. For example, with the launch of SageOne, we incurred an increased cost of finished goods sold as a percentage of revenue during the Track Record Period. We expect our cost of revenues as a percentage of revenue may vary from period to period in the short term as a result of the mix of our solution offerings, while it will generally decrease in the long term due to the following factors:

- As we continue to optimize our algorithms and to enhance the compatibility of software and hardware, we expect to improve the computing efficiency of our solutions, which enables us to enhance user experience while optimizing cost structure; and
- We have invested heavily in developing technology capabilities and infrastructure, in order to provide highly scalable, standardized and flexible solutions for our users. The solutions we offer are highly modularized, which allows us to address users’ customized demands effectively and efficiently, and in turn, enabling us to achieve significant overall cost and operating efficiency.

Our selling and marketing expenses (excluding share-based compensation) accounted for 21.7%, 24.1%, 17.7%, 17.5% and 16.2% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. We expect that our sales and marketing expenses as a percentage of total revenue will generally decrease in the long term due to the following factors:

- Our go-to-market strategy starts with market leaders in each industry we target to enter who are also early adopters of AI. We are able to leverage our experience and success in existing industry and scenario to expand into new industries with similar scenario. We demonstrate the value of our solutions through one or a few entry projects. Once our value has been proven, we are then able to expand our services quickly to address other business needs of our users. As a result of our go-to-market strategy, after we succeed with the lighthouse users, we leverage our understanding of the industries, our reputation established through collaborating with industry leaders, and our AI ecosystem to further enhance our influence in such industries, enabling us to further penetrate and provide solutions to other players, without incurring significant sales and marketing efforts;

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- We expect to accumulate a larger user base and higher user stickiness as we continuously solidify our market leadership. We expect this to enable us to attract and retain users and, in the long-term, reduce spending on promotions and advertisements. As our users develop more AI applications for new use cases on our platform and/or increase usage in existing use cases which require more computing power, they will need to purchase additional licenses from us for additional computing power, which in turn allows us to capture additional monetization opportunities with low marginal cost after the initial sale and improve our profitability. Our ability to create value for users is evidenced by a net dollar expansion rate of 250%, 167% and 140% for our lighthouse users in 2019, 2020 and 2021, respectively;
- We expect to benefit from more efficient user acquisition through word-of-mouth referrals and enhanced brand awareness. With our established brand reputation and large user bases, we expect to continuously generate significant word-of-mouth referrals and organic user growth; and
- We plan to strengthen our relationships with solution partners to retain and expand our user base across various industries, which will help improve our sales and marketing efficiency in the long run.

Our general and administrative expenses (excluding share-based compensation) accounted for 19.5%, 12.7%, 8.6%, 9.7% and 13.8% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. We expect that our general and administrative expenses as a percentage of total revenue will generally decrease in the long term, as the major expense component, employee benefit expenses, generally do not increase proportionally with our revenue growth.

Our research and development expenses (excluding share-based compensation) accounted for 77.5%, 57.3%, 55.3%, 56.6% and 52.7% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. While we will continue to invest in research and development capabilities to support our long term growth, we expect that our research and development expenses will generally decrease as a percentage of total revenue in the long term, as (i) we expect to have stronger bargaining power against our suppliers for outsourced R&D services as we scale up, and are thus able to obtain more favorable pricing terms, and (ii) the major expense component, employee benefit expenses, generally do not increase proportionally with our revenue growth, and thus we are able to enjoy economies of scale as we scale up. We plan to (i) further strengthen our existing core technologies, and (ii) invest in the research and development team of new areas which may lead to the next generation of AI technologies. For example, we are dedicated to developing technologies in the area of data privacy protection, including privacy preserving learning, which is able to enhance data privacy in the process of machine learning, and federated learning which entails training algorithm on local datasets without exchange data samples, thereby enhancing data security and privacy. For details, see “Business – Research and Development.”

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Our future profitability is uncertain and subject to various factors, including our ability to develop new technologies, enhance user experience, establish effective monetization strategies, compete effectively and successfully, and continuously grow revenues and our user base in a cost-effective way by improving our operational efficiency. For details, see “Risk Factors – Risks Related to Our Business and Industry – We have recorded net losses, net liabilities and operating cash outflow during the Track Record Period, and we may not be able to achieve or subsequently maintain profitability.”

OUR TECHNOLOGY

We create and apply advanced technologies to drive the development of our AI solutions. We believe that our technology is at the core of our innovative solutions and we have made significant investments in technologies to ensure our market leadership. We believe that our technologies enable us to deliver more efficient and more cost-effective solutions with higher performance to users. We have been leading in the research of advanced AI technologies, and are the pioneer to utilize these technologies in commercial solutions. Being a first-mover means we are well ahead of our competitors in terms of efficiency and accuracy of our algorithms. Accumulation of use cases and experience over the years makes our solutions difficult, if not impossible, to be replicated by our competitors.

Our core technologies include AutoML, transfer learning, environment learning and Auto RL. These technologies are embedded as operating modules (“operators”) in our AI developer suites, underlying the AI applications designed and developed by our users. Each of our core technology is a sub-category of machine learning with different focuses, and we do not own, collect or process data of our users on our servers during the machine learning process. AutoML automates the process of machine learning; transfer learning is able to “transfer” the machine learning process conducted in one scenario to another with similarity; environment learning and AutoRL optimizes the machine learning process in dynamic, uncertain, and potentially complex environment. Based on their scenario-specific needs, developers select operators based on different technologies for module training. Specifically, AutoML are used in general decision making scenarios, transfer learning is able to optimize modeling processes in scenarios with insufficient or incomplete samples, and AutoRL together with environment learning are typically used in scenarios such as optimized manufacturing planning, agile supply chain and logistics scheduling.

AutoML

Our AutoML technology automates the process of machine learning and enables algorithms to automatically discover new patterns, hence minimizing the ongoing involvement of AI engineers responsible for developing, adjusting, maintaining and refining the AI models. Conventional AI solutions are mostly specific to individual application scenarios and require AI experts to develop the model from ground up and to continuously refine it. Moreover, the development of AI algorithms requires complex and time-consuming modeling process, and the correct deployment of AI requires consistent data to ensure the model in production performing as good as in the offline modeling process. Specifically, AutoML are used in general decision

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making scenarios. Powered by AutoML technology, our AI developer suites enable AI models to continuously learn and improve by themselves through discovering new patterns, hence directly reducing the cost, effort and complexity of implementing AI solutions. It also allows large-scale deployment of AI by enterprises because significant involvement of AI experts is no longer required. Our AutoML enables our AI developer suites to automatically refine data, thereby enhancing the efficiency and results of modelling processes. It helps developers screen and extract useful characteristics from data. During the model training process, leveraging AutoML technology, our AI developer suites automate parameter tuning and help users greatly reduce human efforts and costs. It is also constantly self-improving, hence lowering the barriers for deep learning and significantly improving the training quality of our AI developer suites.

As compared to similar technologies applied by our competitors, our proprietary AutoML algorithm is a cutting-edge AutoML algorithm in the world, according to CIC. With our AutoML algorithms, we broke the world records of two Open Graph Benchmark (“OGB”) tasks in April 2021. OGB is a globally recognized collection of benchmark datasets for machine learning on graphs that AI companies and research institutions utilize to test and evaluate their AI model performance. Participants of the OGB tasks include world-famous innovative enterprises and research institutes, such as Facebook, Alibaba, Stanford University and Cornell University. Our AutoML algorithm also ranks top 1% in Kaggle Structured Data and Image Classification Competition 2019. See “– Awards and Recognition.” According to CIC, we were the first in the world to launch a commercialized product using the AutoML framework in 2014, and to apply AutoML in a number of use cases across various industry sectors. For example, according to CIC, we launched the world’s first commercialized AutoCV product in 2018. Our technology leadership and first-mover advantage have contributed to our initial success in acquiring lighthouse users, which in turn enable us to further penetrate and provide solutions to other players in different industries.

Transfer Learning

Our transfer learning technology expands application of AI to industries in which data is sensitive or scarce and resolves privacy issues surrounding application of AI in fields involving sensitive data subjects. Due to the lack of labeling data to meet business needs, as well as the need to improve model effectiveness, transfer learning is now being increasingly recognized. It equips our AI developer suites with the ability to “transfer” analysis conducted and patterns discovered in one industry or scenario to another with similarity, hence being able to provide AI solutions even where data is not readily available or accessible. Transfer learning enables our AI developer suites with capabilities of taking knowledge learned on one problem, and leveraging them on a new, similar problem. For instance, with transfer learning technology on our AI developer suites, knowledge from a model that has learned to recommend books for people may be useful to kick-start a model meant to recommend music. This facilitates AI transformation among enterprises because it reduces the scope of data required for our AI developer suites to produce valuable output and broadens the range of business fields and scenarios in which AI could make a positive impact. Dr. Dai and Dr. Yang Qiang (our co-founder) are the pioneers in transfer learning and are well regarded in the AI industry for

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their achievements and contributions in steering the direction for the research and development of transfer learning worldwide. Moreover, Dr. Yang currently has the most paper citations in the filed of transfer learning, according to CIC. Therefore, as compared to some of our competitors applying similar technologies in China’s platform-centric decision making AI market, our transfer learning technology is better recognized in the industry, which contributes to our competitive advantages in acquiring new customers.

Environment Learning

Our environment learning technology reduces the cost of model training and ensures safety by training models in a simulated environment. It combines technologies such as simulation, supervised learning and derivative-free optimization, and learns the simulation rules and parameters which cannot be performed by humans in a data-driven approach. Traditional simulation technologies heavily rely on the domain knowledge and expertise of developers, and thus may not be applied in environment which requires significant domain knowledge is available. As compared to traditional simulation technologies, our environment learning technology is able to build a high-precision simulated environment without complete domain knowledge, enabling users of our AI developer suites to apply intelligent decision-making technologies in more use cases. Our environment learning technology applies a data-driven approach to learn simulation rules and parameters that cannot be determined by human. For example, powered by environment technology our AI developer suites have been successfully applied in simulating the development of COVID-19 under different circumstances, assisting in the decision-making process to prevent and control the pandemic.

AutoRL

Our AutoRL technology automates the process of reinforcement learning, which refers to the training of machine learning models to make a sequence of decisions in a dynamic, uncertain, potentially complex environment. Traditional reinforcement learning technologies require significant cost of learning, development and application, which limits the application value of reinforcement learning. Our AutoRL operator embedded on our AI developer suites provides end-to-end and automatic suite of tools for reinforcement learning. The effectiveness of reinforcement learning is highly dependent on the structure of underlying models, which require significant scenario-specific knowledge from developers. Powered by AutoRL technology our AI developer suites are able to automatically generate the structure of neural network, which refers to a set of algorithms designed to recognize patterns, and effectively improving the quality of model training. As a result, users are able to develop reinforcement learning algorithms without extensive prerequisite background or knowledge. Our AI developer suites enable users to input their actual business needs, and integrate advanced AutoRL algorithms with AutoML and other technologies such as derivative-free optimization. In addition, AutoRL equips our AI developer suites with features such as automatic algorithm selection and dynamic parameter tuning, and enables our AI developer suites to accurately tune parameters in real-time. AutoRL operator embedded on our AI developer suites enables users

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to significantly reduce human efforts while improving the effectiveness of reinforcement learning while reducing TCO. As a result, our AI developer suites enable users to realize automatic and refined decision-making at multiple levels in a dynamic, uncertain, potentially complex environment.

According to CIC, we are currently the pioneer in China’s platform-centric decision-making AI market that applies environment learning and AutoRL technologies in its operations, which are rarely applied by other competitors. Thus we are better positioned to acquire new users with demand for AI application in complex environment.

Technology Infrastructure

Our information technology infrastructure is designed to satisfy the requirements of our operations, support the growth of our business and ensure reliability of our operations as well as security of information on our platform.

We are supported by servers in geographically dispersed areas across China, including various locations in Beijing and Inner Mongolia which enables the high availability of our technology infrastructure. In addition, we have in place a comprehensive set of contingency plans to manage potential risks of any emergency or service disruption. For example, we back up our operating data regularly, and our staff responsible for database management perform daily inspection on our backup record to make sure all the operating data is properly archived. We also test the data recovery capability of our systems, which help us ensure our backup data can be completely retrieved. We did not experience any material service disruptions during the Track Record Period and up to the Latest Practicable Date.

We also adopt a highly scalable, cloud-based technology architecture through our cooperation with trusted cloud computing service providers in China. In addition, the compatibility of our existing technology architecture and software solutions allows for swift transition and effective integration across different cloud computing service providers. Therefore, we do not expect any material technological issues or other hurdles for us to switch cloud computing service providers. Our cloud-based technology architecture allows us to process large volumes of data on a real-time basis and ensure high-speed and stable performances on a large scale to accommodate and support the increased complexity and diversity of our business operations. We have been enhancing our technology architecture by increasing the investment in third-party cloud computing services to ensure our cloud architecture can effectively address our growing business needs.

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SALES AND MARKETING

Sales

We believe that our solutions speak for themselves. We are dedicated to creating value for users as we ultimately share their success. Our go-to-market strategy starts with market leaders in each industry we target to enter who are also early adopters of AI. We demonstrate the value of our solutions through one or a few entry projects. Once our value has been proven, we are then able to expand our services quickly to address other business needs of our users. The number of our lighthouse users increased from 32 in 2019 to 47 in 2020, and further to 75 in 2021. The number of our lighthouse users has increased from 38 in the six months ended June 30, 2021 to 74 in the six months ended June 30, 2022. Our average revenue per lighthouse user has increased from RMB8.3 million in 2019 to RMB12.3 million in 2020, and further to RMB13.7 million in 2021. For the six months ended June 30, 2022, our average revenue per lighthouse user was RMB8.9 million, as compared to RMB10.3 million for the six months ended June 30, 2021, primarily because the recurrence of COVID-19 in 2022 had caused temporary disruption to our projects, to the extent that necessary on-site meetings, deployment and technical support had to be delayed or cancelled.

After we succeed with the lighthouse users, we leverage our understanding of the industries, our reputation established through collaborating with industry leaders, and our ecosystem to further enhance our influence in such industries, enabling us to further penetrate and provide solutions to other players, without incurring significant sales and marketing efforts.

Our sales cycle primarily consists of initial communications with users, project evaluation and design, proof of concept and contracts execution. As we primarily focus on providing services to large-scale lighthouse users, we may spend significant time on communications with users, project evaluation and design, thereby resulting in longer sales cycles. We leverage both our in-house sales team and third-party solution partners to promote our solutions. We have established a professional in-house sales team. Our employees have deep knowledge of the industries and users that they are responsible for. Our in-house sales team works closely with our product team to ensure that they can propose the best solutions to address the pain points faced by market participants in the relevant industry verticals. To encourage and incentivize our in-house sales team, we have designed a compensation structure that includes a fixed component as well as a performance-based component. We set specific performance targets for each team member. We evaluate such employee's performance every year and pay out performance-based compensation accordingly.

We also work closely with third-party solution partners, which primarily consist of system integrators, and leverage their understanding of end users' demands, thereby developing tailored marketing strategies. For details, see “– Customers and Customer Support” in this section.

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Marketing

We enhance the awareness of our brand and promote our new and existing solutions through both offline and online channels. We participate in various offline events, such as industry conferences, product launches and industry salons to showcase our technological advancements and develop relationships with industry participants. We have collaborated with several media partners to promote our brand and technology in news reports.

RESEARCH AND DEVELOPMENT

As AI technology continuously undergoes rapid advancements, our abilities to create new technologies, design new solutions and enhance existing solutions are critical to maintaining our market leadership. Therefore, we invest substantial resources in research and development activities. Our research and development expenses were RMB416.4 million, RMB565.7 million, RMB1,249.5 million, RMB578.3 million and RMB557.9 million in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. During the Track Record Period, our investment in research and development was primarily to (i) develop commercialized products and solutions using our core technologies, demonstrated by, for example, our launch of Sage AIOS in 2020, and our launch of enterprise-level AI App Store in 2021, see also “– Our Enterprise AI Solutions,” (ii) design and test features of our Sage Platform modules, (iii) develop versatile modules for Sage Platform and applications to accommodate industry-specific demand for AI applications, and (iv) enhance fundamental research and explore new areas which may lead to the next generation of AI technologies, such as federated learning and technologies in the area of data privacy protection, see also “– Our Technology.” In the future, we will continue to invest in research and development activities to enhance our technological capabilities and solution development. See “Future Plans and Use of [REDACTED].” Our research and development staff comprises computer scientists, researchers and other technology professionals. As of June 30, 2022, our research and development staff consisted of 1,411 employees, representing 73% of our total employees.

Dr. Dai and Dr. Yang Qiang (our co-founder) are the pioneers in transfer learning and are well regarded in the AI industry for their achievements and contributions in steering the direction for the research and development of transfer learning worldwide. Our research and development staff is led by Mr. Chen Yuqiang, our Chief Research Scientist and a pioneering scholar in the field of transfer learning and AutoML. His works have been published at renowned academic conferences, including NIPS, AAI, ACL and KDD.

We focus on building and maintaining a large pool of talented researchers to drive our research and development efforts. We conduct targeted recruitment among contestants in high profile programming competitions. Our employees include gold medal winners in prestigious international programming competitions such as ACM. We provide rigorous training to new recruits to familiarize them with our platform and thereby closely integrate them into our research and development staff.

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The development of our AI solutions are underpinned by our strong R&D capabilities. Our continuous investments in research and development activities result in a wealth of intellectual properties. As of the Latest Practicable Date, we had over 230 patents registered with the National Intellectual Property Administration of the PRC and over 320 pending patent applications in the PRC. With our proprietary AutoML algorithms, we broke the world records of two Open Graph Benchmark (“OGB”) tasks in April 2021. OGB is a globally recognized collection of benchmark datasets for machine learning on graphs that AI companies and research institutions utilize to test and evaluate their AI model performance. Participants of the OGB tasks include world-famous innovative enterprises and research institutes, such as Facebook, Alibaba, Stanford University and Cornell University. Our AutoML algorithm also ranks top 1% in Kaggle Structured Data and Image Classification Competition 2019. See “– Awards and Recognition.” In addition, we have developed other advanced core technologies including transfer learning, environment learning and AutoRL. For details, See “– Our Technology.”

In addition, we are exploring new areas which may lead to the next generation of AI technologies. For example, we are exploring advanced technologies in the area of AutoML, including automated graph learning which is designed for analyzing graph data, and automated semi-supervised learning which is designed for analyzing unlabeled data together with labeled data to enhance modeling efficacy. We are also dedicated to developing technologies in the area of data privacy protection, including privacy preserving learning, which is able to enhance data privacy in the process of machine learning, and federated learning which entails training algorithm on local datasets without exchange data samples, thereby enhancing data security and privacy.

DATA PRIVACY AND SECURITY

We do not own, nor do we collect data of our users. Instead, we offer platform and algorithm based on which our users run their own AI models on their own data. Also, we provide enterprise-level AI solutions to organizations and do not serve individuals. Specifically, (i) we are a provider of AI solutions for corporate users, and our primary business is to provide privatization deployment solutions, in which we will not access any data owned or held by corporate users; (ii) for cloud-based subscriptions, we offer Sage Platform and other ready-to-use applications through public cloud services offered by third party vendors and we are only provided with the administration access which allows us to help users with coding and system integration upon users’ request for the sole purpose of assisting the users to utilize our solutions, and not in any way participating or assisting the corporate users with data processing activities, and we do not access or process any data of our users; and (iii) our core technologies are sub-categories of machine learning and are embedded as operating modules (“operators”) in our AI developer suites, and we do not own, collect or process data of our users on our servers during the machine learning process. Based on the foregoing, we and our PRC Legal Advisor are of the view that both the Company’s existing products and solutions, and the products and solutions that are being developed, and their data privacy features as mentioned above comply with data privacy and cybersecurity laws in the PRC effectively in all material respects.

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Data security and protection are among our highest priorities. In this regard, we have designed strict data protection and information security policies to ensure strict compliance with applicable laws, regulations and prevalent industry practice. We have implemented comprehensive internal policies on protecting data privacy and security under the supervision of our Chief Architect, with the purpose to ensure data and information security, optimize data governance, protect the benefits of our users, business partners, employees and other third parties, and ensure compliance with all applicable laws and regulations. We have established a Data and Information Security Committee, members of which include the responsible persons in various departments such as IT, R&D, Solution Deployment, Human Resources and Compliance. The committee is responsible for formulating data and information security strategies, and decision-making in material data and information incidents. We also engage external legal counsel to review and update our internal policies and ensure continuous compliance with all applicable laws and regulations.

We implement a robust internal authentication and authorization system to ensure that our confidential and important data can only be accessed for authorized use and by authorized personnel. We have clear and strict authorization and authentication procedures and policies in place. Our employees only have access to data which is directly relevant and necessary for their responsibilities and for limited purposes and are required to verify authorization upon every access attempt.

We have established an all-round information system in reference to data security requirements, national standards and industry best practices and intend to continually invest heavily in data security and privacy protection. Our information system applies multiple layers of safeguards, including both internal and external firewalls, to identify and protect us against security attacks. We have completed various information security, privacy and compliance certifications/validations, proving the security and reliability of our data protection technologies. For example, in December 2020, we passed ISO27001 (international standard for information security) and obtained the “Information Safety Management System Certification,” and in February 2020, our Sage Platform obtained the ePrivacyseal, which illustrates our commitment to comply with the requirements of the GDPR.

During the Track Record Period and up to the Latest Practicable Date, we have not received any claim from any third party against us on the ground of infringement of such party’s right to data and privacy protection as provided by any applicable laws and regulations in the PRC or other jurisdictions. Our PRC Legal Advisor is of the view that the current data protection practice of the Company meets the requirements of laws and regulations in effect in material respects, based on the followings: (i) the Company currently does not directly obtain or store customers’ or users’ information in its primary business; (ii) in the Company’s primary business, it mainly accesses the personal information of its employees and business contacts and does not purchase or obtain in any other way any personal information, or carry out any other form of cooperation in respect of exchange, cleaning and processing of personal information; (iii) the Company has not received any complaint relating to data privacy or security measures, nor has it been subject to any government investigation, enquiry, action or penalty; (iv) the Company has implemented comprehensive internal policies on protecting data privacy and security under the supervision of our Chief Architect, with the purpose to ensure

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data and information security and ensure compliance with all applicable laws and regulations; (v) during the Track Record Period and as of the Latest Practicable Date, there had been no material incident of data or personal information leakage, infringement of data protection and privacy laws and regulations, and there had been no investigation or other legal proceeding, to the best knowledge of the Company, pending or threatened against the Group initiated by competent government authorities or third parties, that will materially and adversely affect the Company’s business operations; and (vi) the Company will continue to pay close attention to the legislative and regulatory developments in data security and comply with the latest regulatory requirements. Based on the currently available information and upon (i) discussing with the management of the Company to understand its business nature and internal policies on data security, (ii) interviewing the major customers of the Group, and (iii) discussing with the PRC Legal Advisor and reviewing the PRC Legal Advisor’s analysis set out above, nothing has come to the attention of the Joint Sponsors as non-legal experts that would render them to cast doubt on the PRC Legal Advisor’s conclusion above.

CUSTOMERS AND CUSTOMER SUPPORT

We have two main categories of customers: (i) direct customers who are end users purchasing our solutions directly; and (ii) solution partner customers, who are mainly third-party system integrators that embed our solutions into their offering to cater for end users’ specific needs. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, revenue generated from direct customers accounted for 21%, 15%, 43%, 29% and 30% of our total revenue, respectively. We typically grant a credit term ranging from 3 to 6 months for direct customers.

Certain end users of our solutions, especially those in the finance industry, use system integrators when selecting suppliers or service providers, to save them from the trouble of directly negotiating with a large number of different suppliers or service providers and to benefit from the various other services provided by such system integrators. Such end users typically lay out the goals they plan to achieve and the budget for their projects and engage third-party system integrators, instead of engaging us directly. These system integrators typically embed our solutions into their offering to cater for end users’ specific needs, and provide various other services to end users, such as implementation services. According to CIC, engagement with end users through solution partner customers is an industry norm. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, revenue generated from such solution partner customers accounted for 79%, 85%, 57%, 71% and 70% of our total revenue, respectively. We typically grant a credit term ranging from 3 to 6 months for solution partner customers.

Although a portion of our customers are solution partners, which mainly are system integrators, not the end users, we do not believe that our business model is a distributorship model. As discussed above, solution partners are not distributors that we engage to broaden our sales channels; instead, they are selected by our end users to implement their projects, and the ultimate decisions as to which service provider to choose are primarily made by the end users. When we enter into a contract with a solution partner, we recognize such solution partner,

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instead of the relevant end user, as our customer. As such, we do not believe that the solution partners are our distributors, and we do not believe that our business relationship with them raises any concern in relation to inventory risk, cannibalization or recoverability of accounts receivables.

We are dedicated to creating value for users as we ultimately share their success. Our go-to-market strategy starts with market leaders in each industry we target to enter who are also early adopters of AI. We demonstrate the value of our solutions through one or a few entry projects. Once our value has been proven, we are then able to expand our services quickly to address other business needs of these market leaders. After our influence in the business vertical is established, we collaborate with our solution partners to offer our solutions to other long-tail users to achieve market penetration.

We established a dedicated sales team comprising of sales personnel with work experiences in leading software companies and consulting firms. Our sales team targeting direct customers is usually industry-focused, whereas our sales team targeting solution partners is usually region-focused. We have different approaches of establishing relationship with our target customers depending on our existing commercial relationship with them. We use a “top-down” strategy for certain customers, where our sales team contacts potential customers’ decision-making level personnel and establish strategic cooperation to design comprehensive solutions to empower such customers’ enterprise AI transformation. For target customers with which we have not yet established strong relationship at top level, we use a “bottom-up” strategy, where our sales personnel contact working level personnel of the customers and design solutions on a scenario basis.

The following tables set forth a summary of our five largest customers for the periods indicated.

Five Largest Customers for the Year Ended December 31, 2019				Year of Commencement of Relationship with the Company	Percentage Contribution to the Company's Total Revenue	Customer Type	Registered Capital
Background	Objects of Transaction			Transaction Amounts (RMB'000)			
Customer A	A company focused on information technology	Sage Platform and applications	2019	94,449	20.6%	Solution partner	RMB10.0 million
Customer B	A company focused on information technology	Application development and other services	2019	28,200	6.1%	Solution partner	RMB50.0 million

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Five Largest Customers for the Year Ended December 31, 2019	Background	Objects of Transaction	Year of Commencement of Relationship with the Company	Transaction Amounts (RMB'000)	Percentage Contribution to the Company's Total Revenue	Customer Type	Registered Capital
Customer C	A company focused on information technology	Sage Platform and applications	2019	26,850	5.8%	Solution partner	RMB2,000.0 million
Customer D	A bank	Application development and other services	2018	21,465	4.7%	Direct customer	RMB356,406.3 million
Customer E	An institute focuses on science and technology	Application development and other services	2019	17,132	3.7%	Solution partner	N/A
Five Largest Customers for the Year Ended December 31, 2020	Background	Objects of Transaction	Year of Commencement of Relationship with the Company	Transaction Amounts (RMB'000)	Percentage Contribution to the Company's Total Revenue	Customer Type	Registered Capital
Customer F	A company focused on information technology	(i) Sage Platform and applications and (ii) application development and other services	2020	49,345	5.2%	Solution partner	USD272.3 million
Customer G	A company focused on e-commerce	Sage Platform and applications	2020	35,990	3.8%	Solution partner	RMB100.0 million
Customer H	A company focused on information technology	Sage Platform and applications	2020	27,973	3.0%	Solution partner	RMB61.0 million
Customer I	A company focused on information technology	Sage Platform and applications	2020	26,022	2.8%	Solution partner	RMB100.0 million
Customer E	An institute focuses on science and technology	Application development and other services	2019	25,022	2.6%	Solution partner	N/A

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Five Largest Customers for the Year Ended December 31, 2021	Background	Objects of Transaction	Year of Commencement of Relationship with the Company	Transaction Amounts (RMB'000)	Percentage Contribution to the Company's Total Revenue	Customer Type	Registered Capital
Customer J	A company focused on electronic technology	Sage Platform and applications	2021	55,874	2.8%	Direct customer	RMB50.0 million
Customer K	A company focused on information technology	Application development and other services	2021	54,864	2.7%	Solution partner	RMB22.3 million
Customer L	A company focused on information technology	Sage Platform and applications	2019	38,445	1.9%	Solution partner	US\$130.0 million
Customer M	A company focused on information technology	Sage Platform and applications	2021	38,153	1.9%	Solution partner	RMB30.0 million
Customer N	A company focused on information technology	Sage Platform and applications	2021	37,468	1.8%	Solution partner	RMB58.0 million
Five Largest Customers for the Six Months Ended June 30, 2022	Background	Objects of Transaction	Year of Commencement of Relationship with the Company	Transaction Amounts (RMB'000)	Percentage Contribution to the Company's Total Revenue	Customer Type	Registered Capital
Customer O	A company focused on transportation solutions	Sage Platform and applications	2021	73,497	6.9%	Solution partner	RMB110.0 million
Customer P	A company focused on information technology	Sage Platform and applications	2022	64,319	6.1%	Solution partner	RMB35.0 million
Customer L	A company focused on information technology	Sage Platform and applications	2019	59,232	5.6%	Solution partner	US\$130.0 million
Customer Q	A company focused on e-commerce and information technology	Application development and other services	2021	45,283	4.3%	Direct sales	RMB52.12 million
Customer R	A company focused on telecommunication	Application development and other services	2021	42,917	4.1%	Solution partner	RMB31.88 billion

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Our top five customers in aggregate accounted for 40.9%, 17.4%, 11.1% and 27.0% of our total revenues in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. Our largest customer in each year/period during the Track Record Period accounted for approximately 20.6%, 5.2%, 2.8% and 6.9% of our total revenue for the respective year/period.

We enter into written agreements with our direct customers or solution partners. Regardless of whether our contracts were entered into directly with our end users or with solution partners, there was no material difference in the contract terms and the scope of our services. The value of our contracts with customers can vary substantially from customer to customer, depending on their business needs. The salient terms and conditions of our agreements with customers are set out below:

- ***Deliverables:*** For sales of our Sage Platform and applications, we typically provide non-exclusive licenses of use rights of our solutions and maintenance services related to the solutions. For application development and other services, we typically develop customized applications based on the customer’s specification.
- ***Pricing:*** The price of our software license is primarily based on the estimated computing power consumption by reference to the AI applications our users plan to deploy. We charge users of SageOne by taking into account the number of hardware, required computing power, license fees of our software and service fees for deployment, operation and maintenance. For application development and other services, we typically charge customers on a project basis, the pricing of which is primarily based on the manpower consumption of the relevant services.
- ***Customer Support:*** We typically provide free technical support for one year after the sale of our solutions and free training to help our customers learn to use and maintain our solutions.
- ***Ownership:*** All intellectual property rights relating to the solutions that we deliver under the agreement, including but not limited to copyrights, patents ownership of the proprietary technologies and trademarks, belong to us. The other party may not conduct any reverse engineering, decompiling, disassembly or use other methods to obtain the source code and underlying algorithms of the software, hardware and related technologies provided by us or to otherwise engage in activities that may harm our proprietary rights.

To the best of our knowledge, during the Track Record Period and up to the Latest Practicable Date, our customers were Independent Third Parties. As of the Latest Practicable Date, none of our Directors, their associates or any of our shareholders (who or which to the knowledge of the Directors owned more than 5% of our issued share capital) had any interest in any of our five largest customers.

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In our ongoing efforts to enhance user satisfaction and improve service quality, we maintain a dedicated customer support and service team that is focused on real-time problem-solving with the ultimate goal of increasing user experience and stickiness. In addition, we also gather feedback on how to improve our solutions and respond to user suggestions.

As a matter of policy, only hardware products with defects may be returned. Our rigorous quality control procedures ensure that our products are properly examined before being sold. As a result, we experienced an immaterial level of product returns during the Track Record Period. We typically offer a limited warranty for our hardware products. Warranty coverage typically runs for three to five years after our delivery or customers’ or users’ examination. Pursuant to the agreement with our third party vendors who supply certain standardized components for hardware products of SageOne, our third party vendors should compensate us for liabilities caused by product defects and typically offer us full warranty on the hardware products affected. Such full warranty coverage typically runs for three to five years from the time of purchase by us.

During the Track Record Period, major end users of our solutions include companies in the banking, financial services, energy, retail, telecommunication and technology industries, among others.

The following tables set forth a summary of our ten largest end users for the periods indicated and to the best of the Company’s knowledge.

Ten Largest End Users for the Year Ended December 31, 2019	Background	Solution/service provided	Examples of major use cases (to the best knowledge of the Company)	Transaction Amounts (either directly with the Company or through solution partners) (RMB’000)
User A	A data center	(i) Sage Platform and applications and (ii) application development and other services	Information security audit system and big data model analytics platform	36,480
User B	An energy company	(i) Sage Platform and applications and (ii) application development and other services	Intelligent grid data management platform	30,106

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Ten Largest End Users for the Year Ended December 31, 2019	Background	Solution/service provided	Examples of major use cases (to the best knowledge of the Company)	Transaction Amounts (either directly with the Company or through solution partners) (RMB'000)
User C	A financial institution	(i) Sage Platform and applications and (ii) application development and other services	Anti-fraud platform, intelligent product recommendation and OCR note recognition	29,476
User D	A municipal investment company	(i) Sage Platform and applications and (ii) application development and other services	Data security control solutions and big data decision-making analytics system	27,648
User E	A financial institution	(i) Sage Platform and applications and (ii) application development and other services	Intelligent product recommendation and anti-fraud platform	17,590
User F	A financial institution	(i) Sage Platform and applications and (ii) application development and other services	OCR intelligent service engine for financial instruments	17,424
User G	A financial institution	(i) Sage Platform and applications and (ii) application development and other services	Anti-money laundering platform, intelligent product recommendation and OCR note recognition	16,162
User H	A university	Sage Platform and applications	High performance computing solutions	15,733
User I	A telecommunication company	Application development and other services	Intelligent product recommendation and risk modelling	13,755

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Ten Largest End Users for the Year Ended December 31, 2019	Background	Solution/service provided	Examples of major use cases (to the best knowledge of the Company)	Transaction Amounts (either directly with the Company or through solution partners) (RMB'000)
User J	A financial institution	Application development and other services	Intelligent product recommendation, anti-fraud platform and OCR note recognition	12,535
Ten Largest End Users for the Year Ended December 31, 2020	Background	Solution/service provided	Examples of major use cases (to the best knowledge of the Company)	Transaction Amounts (either directly with the Company or through solution partners) (RMB'000)
User B	An energy company	(i) Sage Platform and applications and (ii) application development and other services	Intelligent supply chain inventory prediction platform	77,984
User K	A financial institution	Sage Platform and applications	Intelligent product recommendation and big data decision-making analytics	44,635
User L	A retail company	(i) Sage Platform and applications and (ii) application development and other services	Intelligent product recommendation and intelligent supply chain management system	38,099
User M	A public service organization	Sage Platform and applications	Big data decision- making analytics platform	35,990

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Ten Largest End Users for the Year Ended December 31, 2020	Background	Solution/service provided	Examples of major use cases (to the best knowledge of the Company)	Transaction Amounts (either directly with the Company or through solution partners) (RMB'000)
User N	A transportation infrastructure company	Sage Platform and applications	Risk control and big data decision- making analytics platform	27,973
User C	A financial institution	(i) Sage Platform and applications and (ii) application development and other services	Anti-money laundering platform, intelligent product recommendation and OCR note recognition	27,107
User J	A financial institution	(i) Sage Platform and applications and (ii) application development and other services	Anti-fraud platform, intelligent product recommendation and OCR note recognition	24,768
User O	A financial institution	(i) Sage Platform and applications and (ii) application development and other services	Intelligent product recommendation and big data decision-making analytics platform	23,600
User P	A technology research institute	Application development and other services	High performance computing solutions	23,456
User Q	A financial institution	(i) Sage Platform and applications and (ii) application development and other services	Anti-fraud platform and OCR note recognition	22,496

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Ten Largest End Users for the Year Ended December 31, 2021	Background	Solution/service provided	Examples of major use cases (to the best knowledge of the Company)	Transaction Amounts (either directly with the Company or through solution partners) (RMB'000)
User B	An energy company	(i) Sage Platform and applications and (ii) application development and other services	Intelligent electricity dispatching, operation and maintenance solutions	127,862
User C	A financial institution	(i) Sage Platform and applications and (ii) application development and other services	Anti-fraud platform and big data decision-making analytics platform	81,498
User O	A financial institution	(i) Sage Platform and applications and (ii) application development and other services	Intelligent electricity dispatching, operation and maintenance solutions	56,659
User R	A financial institution	(i) Sage Platform and applications and (ii) application development and other services	Anti-fraud platform and intelligent recognition platform	47,100
User S	A public service organization	(i) Sage Platform and applications and (ii) application development and other services	Intelligent education cloud system	43,393
User K	A financial institution	(i) Sage Platform and applications and (ii) application development and other services	Anti-fraud platform and intelligent recognition platform	42,747
User T	An energy company	(i) Sage Platform and applications and (ii) application development and other services	Intelligent audit system and big data decision-making platform	42,680

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Ten Largest End Users for the Year Ended December 31, 2021	Background	Solution/service provided	Examples of major use cases (to the best knowledge of the Company)	Transaction Amounts (either directly with the Company or through solution partners) (RMB'000)
User I	A telecommunications company	(i) Sage Platform and applications and (ii) application development and other services	Supply chain management, intelligent operation and maintenance	42,360
User U	A retail company	Sage Platform and applications	Software platform	33,285
User Q	A financial institution	(i) Sage Platform and applications and (ii) application development and other services	Anti-fraud platform and intelligent recognition platform	32,675

Ten Largest End Users for the Six Months Ended June 30, 2022	Background	Solution/service provided	Examples of major use cases (to the best knowledge of the Company)	Transaction Amounts (either directly with the Company or through solution partners) (RMB'000)
User V	A railway vehicle and equipment manufacturer	Sage Platform and applications	Intelligent operation and decision making	73,497
User B	An energy company	(i) Sage Platform and applications and (ii) application development and other services	Intelligent operation and maintenance	60,530
User W	A retail company	Application development and other services	Intelligent recommendation/risk management	45,283

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Ten Largest End Users for the Six Months Ended June 30, 2022	Background	Solution/service provided	Examples of major use cases (to the best knowledge of the Company)	Transaction Amounts (either directly with the Company or through solution partners) (RMB'000)
User X	An energy company	(i) Sage Platform and applications and (ii) application development and other services	Intelligent operation and maintenance	38,490
User Y	An energy company	(i) Sage Platform and applications and (ii) application development and other services	Intelligent operating efficiency	37,474
User Z	A telecommunication company	Sage Platform and applications	Intelligent operation and maintenance	33,702
User I	A telecommunication company	(i) Sage Platform and applications and (ii) application development and other services	Intelligent operating efficiency	27,793
User T	An energy company	(i) Sage Platform and applications and (ii) application development and other services	Risk management/ operating efficiency	24,759
User AA	An IT technology service provider	Sage Platform and applications	Intelligent operation	24,584
User BB	A public service organization	Application development and other services	Intelligent operating efficiency	24,164

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The following table sets forth the revenue contribution by industry of our end users during the Track Record Period.

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Percentage		Percentage		Percentage		Percentage		Percentage	
	Transaction	of Total	Transaction	of Total	Transaction	of Total	Transactin	of Total	Transactin	of Total
	Amounts	Revenue	Amounts	Revenue	Amounts	Revenue	Amounts	Revenue	Amounts	Revenue
	(RMB'000)		(RMB'000)		(RMB'000)		(RMB'000)		(RMB'000)	
							(unaudited)			
Finance	236,696	51.5%	292,469	31.0%	576,550	28.6%	204,369	25.9%	164,071	15.5%
Energy and Power	59,575	13.0%	138,294	14.7%	441,964	21.9%	168,371	21.4%	229,460	21.7%
Retail	29,194	6.3%	100,812	10.7%	176,758	8.8%	57,596	7.3%	67,656	6.4%
Telecommunication	36,859	8.0%	73,145	7.8%	175,380	8.7%	58,752	7.4%	124,182	11.7%
Education	50,920	11.1%	66,665	7.1%	124,228	6.2%	68,169	8.6%	78,846	7.5%
Technology	nil	nil	64,496	6.9%	138,482	6.9%	45,016	5.7%	56,213	5.3%
Media	16,401	3.6%	53,955	5.7%	134,660	6.7%	66,881	8.5%	24,539	2.3%
Manufacturing	9,308	2.0%	23,833	2.5%	102,461	5.1%	21,972	2.8%	52,724	5.0%
Healthcare	nil	nil	nil	nil	57,359	2.8%	30,408	3.9%	51,212	4.8%
Transportation	nil	nil	nil	nil	nil	nil	nil	nil	108,734	10.3%
Others	20,565	4.5%	128,569	13.6%	90,556	4.5%	66,644	8.5%	100,587	9.5%
Total	459,518	100%	942,238	100%	2,018,399	100.0%	788,205	100.0	1,058,224	100.0

SUPPLIERS AND PROCUREMENT

Our suppliers primarily consist of (i) providers of research and development services, (ii) providers of implementation services and (iii) others, such as providers of servers and cloud services and providers of other professional services. Our top five suppliers in aggregate accounted for 21.9%, 13.7%, 21.7% and 23.9% of our total purchases in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. Our largest supplier in each year/period during the Track Record Period accounted for approximately 6.4%, 3.4%, 6.5% and 6.3% of our total purchases in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

Key terms of our agreements with providers of research and development services are set out below:

- *R&D services.* Our suppliers provide research and development services based on our requirements as specified in the agreement.

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- *Delivery and inspection.* Our suppliers shall complete the project within the prescribed time period, and deliver all relevant software and documents. We are entitled to inspect their work products and provide written comments for suppliers to address.
- *Copyright.* We are entitled to all copyrights in relation to the R&D projects, including but not limited to the technical materials, documents, source codes and applications.
- *Termination.* The agreement may be terminated upon mutual consent between the parties.

Key terms of our agreements with providers of implementation services are set out below:

- *Implementation services:* We shall provide detailed requirements and explanations in written for our suppliers to provide implementation services accordingly. We are entitled to change the implementation cycle, alter the services or terminate the agreement with prior written notice.
- *Pricing and payment:* Prices of implementation services are based on the estimated manpower consumption as agreed by both parties. Fees are typically settled on a monthly basis.
- *Indemnification.* Each party shall indemnify the other party for any damages caused by its fault.
- *Termination.* The agreement may be terminated upon mutual consent between the parties, or unilaterally terminated by each party due to breach of agreement by the other party. In addition, we are also entitled to terminate the agreement with prior written notice, provided that we shall pay the suppliers all fees and expenses they have incurred as of the termination date.

We have established a set of internal measures on selection of suppliers. We take into account various factors in selecting our suppliers, which primarily include (i) the candidates' technology skillsets and capabilities, (ii) commercial terms offered by the candidates, (iii) business background, results of operations and financial positions of the candidates, and (iv) project-specific demands. When engaging suppliers, our procurement department is primarily responsible for reviewing the procurement agreements in accordance with our contract management protocols, which set forth, among others, that procurement exceeding RMB6 million must be subject to approvals by legal department, finance department or the chief executive officer.

During the Track Record Period, we have not experienced any significant fluctuation in prices set by our suppliers, material breach of contract on the part of our suppliers or delay in delivery of our orders from our suppliers.

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As of the Latest Practicable Date, none of our Directors, their associates or any of our shareholders (who or which to the knowledge of the Directors owned more than 5% of our issued share capital) had any interest in any of our five largest suppliers.

The following tables set forth a summary of our five largest suppliers for the periods indicated.

Five Largest Suppliers for the Year Ended December 31, 2019	Background	Major Services/ Products Purchased	Year of Commencement of Relationship with the Company	Transaction Amounts (RMB'000)	Percentage of the Company's Total Purchases	Registered Capital
Supplier A	A company focused on electric power	Development services	2018	47,347	6.4%	RMB42.6 million
Supplier B	A company focused on information technology	Hardware	2018	38,282	5.2%	USD272.3 million
Supplier C	A company focused on information technology	Hardware	2019	28,353	3.8%	USD130.0 million
Supplier D	A company focused on information technology	Hardware	2018	27,000	3.7%	RMB5.2 million
Supplier E	A company focused on information technology	Deployment services	2019	20,201	2.7%	RMB50.0 million

Five Largest Suppliers for the Year Ended December 31, 2020	Background	Major Services/ Products Purchased	Year of Commencement of Relationship with the Company	Transaction Amounts (RMB'000)	Percentage of the Company's Total Purchases	Registered Capital
Supplier F	A company focused on financial data services	Hardware	2020	62,504	3.4%	RMB50.0 million
Supplier E	A company focused on information technology	Development services	2019	54,689	3.0%	RMB50.0 million

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Five Largest Suppliers for the Year Ended December 31, 2020	Background	Major Services/ Products Purchased	Year of Commencement of Relationship with the Company	Transaction Amounts (RMB'000)	Percentage of the Company's Total Purchases	Registered Capital
Supplier G	A company focused on information technology	Deployment services	2019	50,599	2.7%	RMB34.0 million
Supplier A	A company focused on electric power	Development services	2018	49,395	2.7%	RMB42.6 million
Supplier H	A company focused on information technology	Development services	2020	36,390	2.0%	RMB80.0 million
Five Largest Suppliers for the Year Ended December 31, 2021	Background	Major Services/ Products Purchased	Year of Commencement of Relationship with the Company	Transaction Amounts (RMB'000)	Percentage of the Company's Total Purchases	Registered Capital
Supplier A	A company focused on electric power	Development services	2018	170,716	6.5%	RMB42.6 million
Supplier I	A company focused on information technology	Development services	2020	135,215	5.2%	RMB80.0 million
Supplier G	A company focused on information technology	Deployment services	2019	119,364	4.6%	RMB34.0 million
Supplier J	A company focused on information technology	Deployment services	2019	77,004	2.9%	RMB64.3 million
Supplier K	A company focused on information technology	Development services	2020	66,378	2.5%	RMB3.9 million

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Five Largest Suppliers for the Six Months Ended June 30, 2022	Background	Major Services/ Products Purchased	Year of Commencement of Relationship with the Company	Transaction Amounts (RMB'000)	Percentage of the Company's Total Purchases	Registered Capital
Supplier I	A company focused on information technology	Development services	2020	72,440	6.3%	RMB80.0 million
Supplier M	A company focused on information technology	Hardware	2019	70,816	6.2%	HK\$5,650.0 million
Supplier G	A company focused on information technology	Deployment services	2019	47,107	4.1%	RMB34.0 million
Supplier L	A company focused on marketing and information technology	Sales and marketing services	2020	45,629	4.0%	RMB12.0 million
Supplier A	A company focused on electric power	Development services	2018	39,397	3.4%	RMB42.6 million

Our five largest suppliers shifted from a mix of hardware vendors and development service providers in 2019 and 2020 to consisting entirely development service providers in 2021, primarily because of our increased demand for third party technology services driven by our enhanced research and development efforts and the expansion of our business.

Supplier B, or Customer F, was one of our top five suppliers in 2019, and was also one of our top five customers in 2020. In 2019, 2020, 2021 and the six months ended June 30, 2022, purchases from this company accounted for 5.2%, 1.1%, 1.9% and 1.0% of our total purchases in the same periods, respectively, and revenue generated from this company accounted for nil, 5.2%, nil and 2.8% of our total revenue in the same periods, respectively. Sales to this company primarily consisted of software, and purchases from this company primarily consisted of servers, computers and other office equipment. Supplier C, or Customer L, was one of our top five suppliers in 2019, and was also one of our top five customers in 2021. In 2019, 2020, 2021 and the six months ended June 30, 2022, purchases from this company accounted for 3.8%, nil, nil and nil of our total purchases in the same periods, respectively, and revenue generated from this company accounted for nil, nil, 1.9% and 5.6% of our total revenue in the same periods, respectively. Sales to this company primarily consisted of software, and purchases from this company primarily consisted of servers. Negotiations of the terms of sales to these companies and purchases from them were conducted separately, and the sales and purchases were neither connected nor conditional upon each other. Our Directors confirmed our negotiations with these companies were on an arm's length basis. In addition, the terms of transactions with these companies are in line with market practice and similar to those with our other customers and suppliers. Except as disclosed above, none of our other top five suppliers during the Track Record Period were also our customers, and none of our other top five customers during the Track Record Period were also our suppliers.

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COMPETITION

We face competition in China’s decision-making AI market from other AI solution providers. The principal competitive factors in our industry include functionality, scope and performance of solutions, scalability and reliability of services, technology capabilities, marketing and sales capabilities, user experience, pricing, brand recognition and reputation. In addition, new and enhanced technology may further increase competition in our industry. We believe that we are well positioned to compete effectively on the basis of the foregoing factors.

Nevertheless, some of our existing competitors have greater name recognition, broader global footprint, longer operating histories, larger user bases as well as greater financial, technical and other resources. See “Risk Factors – Risks Related to Our Business and Industry – If we fail to compete effectively, our business, financial condition and results of operations may be materially and adversely affected” in this Document. For more information on the competitive landscape of our industry, see “Industry Overview.”

INTELLECTUAL PROPERTY

Intellectual property rights are fundamental to our business. We currently hold many intellectual properties related to our core solutions, and we devote significant time and resources to their development and protection. We rely on a combination of patent, trademark, copyright, domain name, trade secret and other proprietary rights protection laws in China and other jurisdictions as well as confidentiality procedures and contractual provisions to protect our intellectual properties. During the Track Record Period, our core technologies were patented. Such patents are typically valid for 20 years.

As of the Latest Practicable Date, we had over 230 patents registered with the National Intellectual Property Administration of the PRC and over 320 pending patent applications in the PRC. We also had six registered patent overseas. As of the Latest Practicable Date, we had over 510 trademarks registered in the PRC, European Union, Singapore and Hong Kong. As of the Latest Practicable Date, we had over 420 copyrights registered with the National Copyright Administration of the PRC. See “Appendix VI – Statutory and General Information – Further Information About Our Business – Intellectual Property Rights” for details of our material intellectual property rights.

During the Track Record Period and up to the Latest Practicable Date, we did not have any material disputes or any other pending legal proceedings regarding intellectual property rights with third parties.

EMPLOYEES

We had 1,925 employees as of June 30, 2022. The following table sets forth a breakdown of our employees by function as of June 30, 2022.

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Function	Number of Employees	Percentage (%)
Research and development	1,411	73
Sales and marketing	254	13
General and administrative	260	14
Total	1,925	100

Substantially most of our employees are based in the PRC, primarily located at our headquarters in Beijing, with some of the rest located in Shenzhen, Shanghai, Guangzhou, Wuhan and Changchun.

Our success depends on our ability to attract, retain and motivate qualified personnel, and we believe that our high-quality talent pool is one of the core strengths of our company. We adopt high standards and strict procedures in our recruitment, including campus recruitment, online recruitment, internal referral and recruitment through executive search, to satisfy our demands for different types of talents.

We provide regular and specialized training tailored to the needs of our employees in different departments. Our employees can also improve their skills through our development of solutions and mutual learning among colleagues. New employees will receive pre-job training and general training.

We offer competitive compensation for our employees. In addition, we regularly evaluate the performance of our employees and reward those who perform well with higher compensation or promotion.

As required by PRC laws and regulations, we participate in various employee social security schemes organized by municipal and provincial government, including pension, maternity insurance, unemployment insurance, work-related injury insurance, health insurance and housing provident fund. We are required under PRC laws and regulations to make contributions to employee social security schemes at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time. We also procure that subsidiaries we acquired comply with applicable labor-related laws and regulations.

We enter into standard contracts and agreements regarding confidentiality, intellectual property, employment, commercial ethics and noncompetition with our executive officers and full-time employees. These contracts typically include a noncompetition provision effective during and up to two years after their employment with us and a confidentiality provision effective during and after their employment with us.

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None of our employees are currently represented by labor unions. We believe that we maintain a good working relationship with our employees, and we have not experienced any significant labor disputes or any difficulty in recruiting staff for our operations during the Track Record Period.

INSURANCE

We consider our insurance coverage to be adequate as we have in place all the mandatory insurance policies required by PRC laws and regulations and in accordance with the commercial practices in our industry. Our employee-related insurance consists of pension insurance, maternity insurance, unemployment insurance, work-related injury insurance and medical insurance, as required by PRC laws and regulations. We also purchase supplemental commercial medical insurance for our employees.

In line with general market practice, we do not maintain any business interruption insurance or product liability insurance, which are not mandatory under PRC laws. We do not maintain key man life insurance, insurance policies covering damages to our network infrastructures or information technology systems or any insurance policies for our properties. See the section headed “Risk Factors – Risks Related to Our Business and Industry – Our limited insurance coverage could expose us to significant costs and business disruption” in this Document. During the Track Record Period, we did not make any material insurance claim in relation to our business.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE MATTERS

We are committed to be a responsible corporate citizen, to abide by applicable laws and generally accepted ethical principles and to increase the wellness of the society. As we vision ourselves to provide world-leading AI platforms and solutions that catalyze progression of society and growth of enterprises, we attach great importance to environmental, social and governance matters, including environmental sustainability, social responsibility and governance (“ESG”).

Environment, Climate and Sustainability

Given the nature of our business, we do not operate any production facilities or otherwise impose any material threats to the environment or the climate. Therefore, we are not subject to significant environmental or climate-related risks. Nonetheless, we have made significant efforts towards environmental protection, change and sustainability.

AI for Low Carbon

As we optimize our algorithms, coupled with distributed architecture design and our all-in-one design, we are able to shorten the training time needed for our AI model and utilize the hardware resources efficiently, thereby achieving the same results with less computing power and, in turn, saving electricity consumption. We also strive to empower enterprises to

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achieve carbon neutrality and emission peak via our AI solutions. For example, the accuracy of load forecasting has a huge impact on costs of any power system, and our decision-making AI solutions, by utilizing technologies such as environmental learning and high-dimensional computing, are able to significantly reduce the error rate in such forecast, intelligently plan and allocate resources within the power system to save power consumption effectively. Moreover, we believe that as AI and its application develop and mature, AI can solve problems more efficiently than traditional technologies, ultimately resulting in less energy consumption.

In addition, we make efforts to save electricity energy in our daily office life as a part of our corporate culture. We operate most of our businesses digitally and utilize cloud-based services to reduce consumption of paper and renovate our offices with environmental-friendly materials, in an effort to keep our carbon consumption low. For example, we paint our offices in light colors and make sure the curtains are open during daytime to reduce use of lighting. We also arrange our office superintendents to inspect the building regularly and turn down the lights in empty rooms. We have imposed office policies for air conditioning with considerations to season, weather and use scenario to manage the energy consumption of air conditioning and displayed notices adjacent to the air conditioners to remind our employees of the environmental impact.

In line with our vision for sustainable development, we oversee our environmental protection performance in aspects such as the use of electricity and water. During the Track Record Period, our costs of electricity consumption were RMB0.5 million, RMB0.4 million, RMB0.6 million and RMB0.4 million, in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. During the Track Record Period, our costs of water consumption were RMB0.06 million, RMB0.09 million, RMB0.05 million and RMB0.03 million, in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. We are dedicated to enhancing the efficiency of electricity and water consumptions in our operations to fulfill our environmental and social responsibility. The table below sets forth our electricity and water consumptions and consumption efficiencies during the Track Record Period.

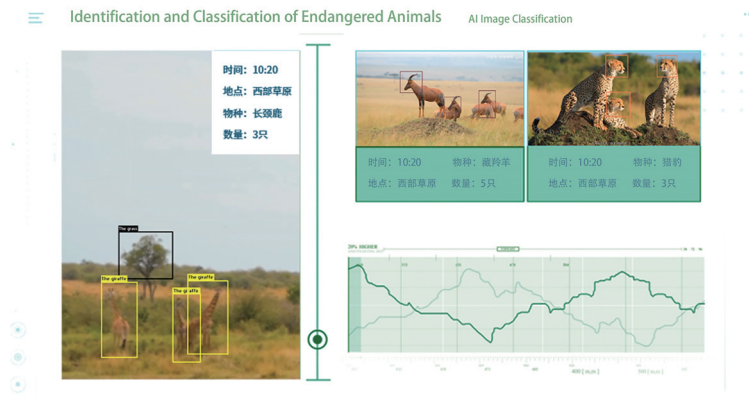
	Year ended December 31,			For the six months ended June 30,
	2019	2020	2021	2022
Total electricity consumption (kWh'000)	391	359	514	353
Electricity consumption (kWh'000)/revenue (RMB in millions)	0.85	0.38	0.26	0.33
Total water consumption* (liter'000)	76	118	71	36
Water consumption* (liter'000)/revenue (RMB in millions)	0.17	0.13	0.04	0.03

* Our water consumption comprises primarily of the cost of purchasing bottled water in each year indicated, as other expenses relating to water consumption is negligible.

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AI for Biodiversity

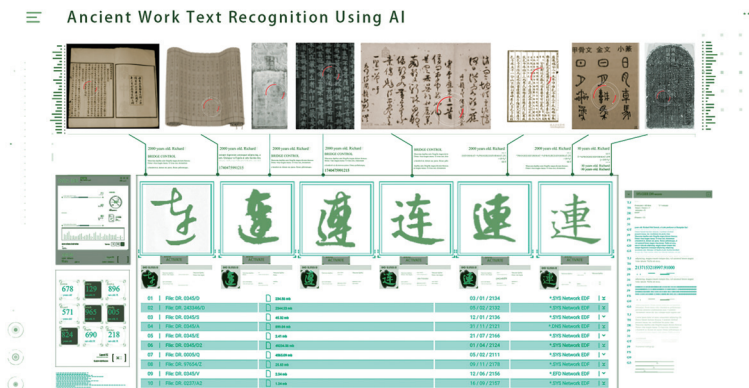
We use our AI technologies to facilitate preservation of biodiversity. Our AI technologies enable people to identify, analyze and capture images of endangered wild animal with high accuracy, providing invaluable information sources for animal behavior study, discovery of wild animal's living pattern and the environmental ecosystem in general.



Social Responsibility

AI for culture

Significant portions of the history and culture of human being are recorded in antiques and ancient books. However, we may lost the information embedded in a large number of ancient books because of technical difficulties in physically preserving these books and in identification of ancient texts. Learning ancient texts is an extremely difficult tasks for human beings, whereas AI technologies are at an advantage: By processing large amounts of illegible texts, our AI solutions are able to discover patterns and rules and therefore learn to identify the texts in an accurate and efficient manner. For example, our AI solutions empowered the recovery of ancient Tripitaka.



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AI for education

We established “Paradigm Academy” for the purpose of educating enterprises on AI. We established AutoML.ai, an open source AutoML challenge platform, which allows us to interact with and learn from top academic institutions, multinational technology companies and AI scientists in the world. We made OpenMLDB and OpenAIOs in our Sage AIOs an open source platform to share our achievements in AI operating systems with developers across the world. In addition, we are dedicated to nurturing AI talents. We were certified as a cooperating training center by the China Electronic Information Application Education Center (CEIAEC) in 2021. We also cooperate with various education and research institutions to provide AI courses and trainings to teachers and students. In addition, we made a RMB330 thousand donation to the University of Chinese Academy of Sciences Education Foundation to establish the “4Paradigm Scholarship,” awarding graduate students with good character who show academic excellence in fields including but not limited to computer science, mathematics, automation and software engineering.

Employee care

We believe that having a balanced lifestyle is crucial to achieving a good mindset at work. Therefore, we encourage employees to maintain good mental and physical health by participating in sports and recreational activities. With respect to our safety policy, we require all employees to follow our safety rules and receive safety training, which includes fire drills and video on evacuation and other fire safety measures.

We nurtured a friendly and inspirational corporate culture that we believe is attractive to the talented scientists who are keen to our success, and we invest heavily in training and retaining them. We provide adequate resources to help them succeed, including easy access to our rich internal resources for training and studying, our invaluable industry-related insights and opportunities to work in an inclusive community with our similar-minded scientists.

Fighting against COVID-19

We aim to create effective and lasting benefits to the local community. We have been committed to charitable endeavors. In particular, in the fight against the COVID-19 outbreak, we have done our utmost to help people in heavily affected regions in China. We provide technology support to help control the pandemic, and was recognized as a Pioneer in Fighting Against COVID-19 (“抗擊新冠肺炎疫情先進集體”) by the Ministry of Industry and Information Technology of China in 2020. We have been committed to charitable endeavors, and made donations in the fight against the COVID-19 outbreak. In addition, we have taken systematic measures to relieve COVID-19. For example, we distribute preventive materials, such as masks, to our employees. We also establish certain policies regarding safe distance, quarantine, self-monitoring and reporting systems subject to the overall situation of COVID-19.

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Governance

ESG Governance Scheme

As part of our efforts to promote corporate social responsibility and sustainable development, we are in the process of optimizing our corporate governance on environmental, social and corporate governance. We plan to adopt a comprehensive ESG policy and establish an ESG committee responsible for overseeing and guiding our ESG initiatives. In addition, we intend to set up an ESG task force led by our legal department, which would be responsible for the formulation, implementation and evaluation of our ESG initiatives and report to our ESG committee regularly. Moreover, we plan to engage professional external ESG consultants to help us establish and improve our ESG policies and standards.

Each year, the ESG task force will perform identification and evaluation of ESG risk factors each year, weighing the risks of different ESG factors, including environmental, social and climate-related risks, by evaluating aspects such as affected scope, frequency of occurrence, recovery costs, predictability and social awareness, so that we can pinpoint the key ESG risk factors and formulate mitigation measures accordingly. In such assessment, we may also use metrics such as percentage of renewable energy used for our solutions, employee air travel emissions, percentage of suppliers that have an environmental program in place, potable water use per square foot and/or waste to landfill per square foot.

AI Code of Ethics

We intend to adopt an AI code of ethics that addresses our beliefs in the key ethical values in the development and use of AI, primarily including integrity and virtuousness, respect for intellectual property rights and data security and protection.

We upheld integrity and virtuousness as the principles that guide our daily operations, business engagements, development and use of AI and technologies. We believe technology is a force for good, we abide by applicable laws and generally acceptable moral values, and we strive to create value to our users and the society as a whole.

As an innovation-driven company, we are highly committed to protection of intellectual property rights. We have designed and adopted strict internal procedures to ensure the protection of our intellectual property rights as well as to operate our business without violating others. See “– Risk Management and Internal Control – Compliance and Intellectual Property Risk Management” for details of our data protection policy and measures.

Data security and protection are among our highest priorities. We have implemented comprehensive internal policies on protecting data privacy and security, including establishing a Data and Information Security Committee, members of which include the responsible persons in various departments such as IT, R&D, Solution Deployment, Human Resources and Compliance. We do not own nor do we collect data of our users in our business operations. See “– Data Privacy and Security” for details of our data protection policy and measures.

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Environmental Management System

Worldwide environmental issues such as climate change, natural resources depletion and species loss are becoming increasingly prominent. Despite that our operations do not involve any production facilities or otherwise impose any material threats to the environment, we still make our best effort to minimize our impacts on the environment. We intend to adopt a company-wide environmental management system (“EMS”) that aligns with customary international standards. The ESG committee will be responsible for overseeing, and the ESG task force will be responsible for implementing the EMS.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fines or other penalties due to noncompliance in relation to health, work safety or environment regulations and had not had any incident, or received any claim for personal or property damage made by our employees, which had materially and adversely affected our financial condition or business operations. Given that we operate our business primarily in the office, and that a majority of our operations are conducted online, we leave limited impact on the environment with a small carbon footprint. In light of such business nature, environmental-related and social-related risks and climate-related issues are not likely to have material negative impacts on our business, strategy and financial performance going forward. During the Track Record Period and up to the Latest Practicable Date, we had not incurred material capital expenditures or compliance costs related to climate and environmental protection. In each of 2019, 2020 and 2021, our annual capital expenditures and compliance costs in this regard amounted to no more than RMB1 million. We also do not anticipate to incur material capital expenditures or compliance costs related to climate in the foreseeable future.

PROPERTIES

We occupy certain properties in mainland China, Hong Kong and Singapore. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. Our headquarters are based in Beijing. According to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this Document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all our interests in land or buildings, for the reason that, as of June 30, 2022, none of the properties leased by us had a carrying amount of 15% or more of our consolidated total assets.

We do not own any properties. As of the Latest Practicable Date, we primarily leased thirteen properties in Beijing, Shanghai, Shenzhen, Changchun, Guangzhou, Wuhan, Chengdu, Hefei, Changsha and Wuxi, with an aggregate gross floor area of approximately 19,732 square meters in mainland China as our office space. We believe that there is sufficient supply of properties in mainland China and we do not rely on the existing leases for our business operations. In addition, we leased several work stations in Hong Kong and Singapore. Our technology infrastructure is supported by servers in geographically dispersed data centers

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across China, including various locations Beijing and Inner Mongolia, that are fault-tolerant, which ensures the high reliability of our platform. We believe that we could relocate these servers to new properties without material disruption to our business, because we have made data backup in our servers in Beijing, which enables recovery of our system within a few hours in the event of any disruptions, including relocations of to these servers.

For more information about the risks with respect to our leased properties, see “Risk Factors – Risks Related to Our Business and Industry – Failure to renew our current leases at reasonable terms or to locate desirable alternatives for our offices and facilities could materially and adversely affect our business and results of operations.”

Furthermore, nine of our leased properties for our business operations in China have not been registered with the relevant PRC government authorities. As advised by our PRC Legal Advisor, failure to register such lease agreements with relevant PRC government authorities does not affect the effectiveness of the lease agreements, but the relevant PRC government authorities may order us to, within a prescribed time limit, register the lease agreements. Failure to do so may subject us to a fine ranging from RMB1,000 to RMB10,000 for each lease agreement. See “Risk Factors – Risks Related to Our Business and Industry – Certain of the lease agreements of our leased properties have not been registered with the relevant PRC government authorities as required by PRC law, which may expose us to potential fines.”

Though none of our leases have been terminated or voided during the Track Record Period, if any of our leases are terminated or voided as a result of challenges from third parties or the government, we would need to seek alternative premises and incur relocation costs. We believe that there are alternative properties at comparable rental rates available on the market, the use of which would not materially and adversely affect our business operations.

LEGAL PROCEEDINGS AND COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any actual or pending legal, arbitration or administrative proceedings (including any bankruptcy or receivership proceedings) that we believe would have a material adverse effect on our business, results of operations, financial condition or reputation and compliance.

According to our PRC Legal Advisor, the business operations we engaged in had been carried out in compliance with applicable PRC laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date.

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LICENSES AND PERMITS

The following table sets forth the details of the material licenses and permits necessary for the business operations in which we engaged in China.

License/Permit	Entity Holding the License/Permit	Grant Date	Expiration Date
Customs Record Receipt of Consignees and Consignors of Imported and Exported Goods	4Paradigm Beijing	June 21, 2019	Long-term
Registration Form for Recordation of a Foreign Trade Business	4Paradigm Beijing	March 09, 2020	Long-term
Work Safety Permit	Guangzhou Jianxin	December 03, 2021	December 03, 2024
The Construction Enterprise Qualification Certificate	Guangzhou Jianxin	December 24, 2021	December 31, 2022
Guangdong Province Qualification Certificate for Design, Construction and Maintenance of Safety Technology Protection System	Guangzhou Jianxin	September 27, 2021	September 26, 2023

During the Track Record Period and up to the Latest Practicable Date, we had obtained all material licenses, permits, approvals and certificates necessary to conduct our actual business operations from the relevant government authorities in the PRC, and such licenses, permits, approvals and certificates remained in full effect.

RISK MANAGEMENT AND INTERNAL CONTROL

We have established and currently maintain risk management and internal control systems consisting of policies and procedures that we consider to be appropriate for our business operations. We are dedicated to continually improving these systems. We have adopted and implemented comprehensive risk management policies in various aspects of our business

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operations. Our Board of Directors is responsible for the establishment and updating of our internal control systems, while our senior management monitors the daily implementation of the internal control procedures and measures with respect to each subsidiary and functional departments.

Financial Reporting Risk Management

We have adopted comprehensive accounting policies in connection with our financial reporting risk management, such as financial management, budget management and financial statement preparation. We also have procedures in place to carry out such accounting policies, and our finance department reviews our management accounts in accordance with such procedures. In addition, we provide ongoing training to our finance staff to ensure that these policies are well-observed and effectively implemented.

Information System Risk Management

Sufficient maintenance, storage and protection of our data and other related information are critical to our success. We have implemented relevant internal procedures and controls to ensure that our data is protected and that leakage and loss of such data are avoided.

We have implemented comprehensive internal policies on protecting data privacy and security under the supervision of our Chief Architect, and we have established a Data and Information Security Committee, members of which include the responsible persons in various departments such as IT, R&D, Solution Deployment, Human Resources and Compliance. The committee is responsible for formulating data and information security strategies, and decision-making in material data and information incidents. We also engage external legal counsel to review and update our internal policies and ensure continuous compliance with all applicable laws and regulations.

We implement a robust internal authentication and authorization system to ensure that our confidential and important data can only be accessed for authorized use and by authorized personnel. We have clear and strict authorization and authentication procedures and policies in place. Our employees only have access to data which is directly relevant and necessary for their responsibilities and for limited purposes and are required to verify authorization upon every access attempt.

We have established an all-round information system in reference to data security requirements, national standards and industry best practices and intend to continually invest heavily in data security and privacy protection. Our information system applies multiple layers of safeguards, including both internal and external firewalls, to identify and protect us against security attacks. We have completed various information security, privacy and compliance certifications/validations, proving the security and reliability of our data protection technologies. For example, in December 2020, we passed ISO27001 (international standard for

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information security) and obtained the “Information Safety Management System Certification,” and in February 2020, our Sage Platform obtained the ePrivacyseal, which illustrates our commitment to comply with the requirements of the GDPR.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material information leakage or loss of our data. See “– Data Privacy and Security” in this section for more information about our information security procedures and policies.

Compliance and Intellectual Property Risk Management

We have designed and adopted strict internal procedures to ensure the compliance of our business operations with the relevant rules and regulations, as well as the protection of our intellectual property rights. Our legal department examines the contract terms and reviews all relevant documents for our business operations, including licenses and permits obtained by the counterparties or us to perform contractual obligations and all the necessary underlying due diligence materials, before we enter into any contract or business arrangements. There was no material and systemic non-compliance during the Track Record Period and as of the Latest Practicable Date.

We have in place detailed internal procedures to ensure that our in-house legal department reviews our solutions and services, including upgrades to existing solutions, for regulatory compliance before they are made available to the general public. Our legal department is also responsible for obtaining any requisite governmental pre-approvals or consent, including preparing and submitting all necessary documents for filing with relevant government authorities within the prescribed regulatory timelines and ensuring all necessary application, renewals or filings for trademark, copyright and patent registration have been timely made to the competent authorities.

Internal Control Risk Management

We have designed and adopted strict internal procedures to ensure the compliance of our business operations with the relevant rules and regulations. We maintain internal procedures to ensure that we have obtained all material requisite licenses, permits and approvals for our business operation, and conduct regular reviews to monitor the status and effectiveness of those licenses and approvals. We obtain requisite governmental approvals or consents, including preparing and submitting all necessary documents for filing with relevant government authorities within the prescribed regulatory timelines.

Human Resources Risk Management

We have established internal control and risk management policies covering various aspects of human resource management such as recruitment, training, work ethics and legal compliance. We maintain high standards in recruitment with strict procedures to ensure the quality of new hires and provide specialized training tailored to the needs of our employees in

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different departments. We also conduct periodic performance reviews for our employees, and their remuneration is performance-based. We monitor the implementation of internal risk management policies on a regular basis to identify, manage and mitigate internal risks in relation to the potential incompliance with our code of conduct, work ethics, and violations of our internal policies or illegal acts at all levels of our Group.

In particular, we have in place a set of comprehensive anti-corruption and anti-bribery policies within our company (the “Anti-corruption Policy”) to promote and support the compliance with applicable anti-corruption laws and regulations, providing guidance on anti-corruption and anti-bribery practices, the whistleblowing channel, as well as the responsibilities for implementing the policies. All of our employees and third-party agents are required to understand and comply with the Anti-corruption Policy, and we from time to time provide anti-corruption trainings to our employees and third-party agents. Under our current whistleblowing policy, one who becomes aware of any possible violations of applicable law or the Anti-corruption Policy should report the relevant incidents to the legal department immediately. Such reports will be treated with confidentiality, and the reported matter will be investigated and handled in a prompt, independent and fair manner.

Investment Risk Management

Our investment department is responsible for investment project sourcing, screening, execution and portfolio management. The department sources investment projects in accordance with our investment strategy, and conducts thorough pre-investment due diligence to assess the risks, business synergies and potential return of the investment projects.

AWARDS AND RECOGNITION

The following table sets forth major awards and recognitions we received as of the Latest Practicable Date.

Award/Recognition	Award Year	Awarding Institution/Authority
Ranked 1st in the Market Share of Machine Learning Platforms in China	2021	International Data Corporation (IDC)
Ranked 1st in the Market Share of Intelligent Decision-Making Solutions in China	2021	International Data Corporation (IDC)
Global Representative Vendor of Composite AI Emerging Technologies and Trends Impact Radar™	2020	Gartner

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Award/Recognition	Award Year	Awarding Institution/Authority
Global Representative Vendor of AutoML in 2020 Top Ten Strategic Technology Trends™	2020	Gartner
Ranked No. 1 in the China Predictive and Analytics and Machine Learning Wave™	2020	The Forrester Wave
World’s 50 Smartest Companies	2020	MIT Technology Review
World Champion of KDD Cup	2020	KDD Presidium
AI 100	2019 & 2020	CB Insights
Ranked Top 1% in Kaggle Structured Data and Image Classification Competition	2019	Kaggle
Wu Wenjun AI Science and Technology Award First Prize	2016	Chinese Association for Artificial Intelligence

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board of Directors comprises nine Directors, including three executive Directors, three non-executive Directors and three independent non-executive Directors. Our Directors serve a term of three years and may be re-elected for successive reappointments.

The following table sets out information regarding the Directors:

Name	Age	Position/Title	Date of Appointment as Director	Date of Joining Our Group	Role and Responsibility
Executive Directors					
Dr. Dai Wenyan (戴文淵)	39	Chairman of the Board, Executive Director, Chief Executive Officer and General Manager	August 2015	January 2015	Overall strategic planning, business and technology direction and operational management
Mr. Chen Yuqiang (陳雨強)	35	Executive Director and Chief Research Scientist	December 2017	March 2015	Overall management of technology and product research and development
Mr. Yu Zhonghao (于中灝)	35	Executive Director, Chief Financial Officer and Vice President	February 2021	May 2018	Overall management of investment and financing, finance, legal and post-investment related matters
Non-executive Directors					
Dr. Yang Qiang (楊強)	60	Non-executive Director	November 2016	November 2014	Overall board affairs, and strategic advice and guidance on product and technology research and development
Mr. Dou Shuai (竇帥)	32	Non-executive Director	February 2021	February 2021	Overall board affairs, and strategic advice and guidance on the business operation of the Group
Mr. Zhang Jing (張晶)	41	Non-executive Director	February 2021	February 2021	Overall board affairs, and strategic advice and guidance on the business operation of the Group

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Position/Title	Date of Appointment as Director	Date of Joining Our Group	Role and Responsibility
Independent Non-executive Directors					
Mr. Li Jianbin (李建濱)	43	Independent Non-executive Director	July 2021	July 2021	Participating in the decision making for our Company’s significant events, and advising on issues relating to corporate governance, audit and remuneration and assessment of our Directors, Supervisors and senior management
Mr. Liu Chijin (劉持金)	60	Independent Non-executive Director	July 2021	July 2021	Participating in the decision making for our Company’s significant events, and advising on issues relating to corporate governance, audit and remuneration and assessment of our Directors, Supervisors and senior management
Ms. Ke Yele (柯燁樂)	41	Independent Non-executive Director	August 2022	August 2022	Participating in the decision making for our Company’s significant events, and advising on issues relating to corporate governance, audit and remuneration and assessment of our Directors, Supervisors and senior management

Note: Each of our Directors had no relationship with other Directors, Supervisors or members of senior management of our Company as at the Latest Practicable Date.

Executive Directors

Dr. Dai Wenyan (戴文淵), aged 39, is Chairman of the Board, an executive Director, Chief Executive Officer and General Manager of our Company. Dr. Dai has been our Chief Executive Officer since January 2015 and Chairman of the Board since August 2015. He was re-designated as our executive Director on July 16, 2021. He is primarily responsible for the overall strategic planning, business and technology direction and operational management of our Company.

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Dr. Dai has approximately 12 years of experience in the AI technology industry. Prior to joining our Company, he served as Chief Research and Development Architect at Baidu Online Network Technology (Beijing) Co., Ltd.* (百度在線網絡技術(北京)有限公司) from May 2009 to May 2013, where he was responsible for the research, development and management of advertising system of the Baidu search.

Dr. Dai is a renowned scholar in AI and his papers were published in the conference proceedings of leading organizations such as NIPS, ICML, AAAI and KDD. In April 2005, Dr. Dai was awarded as a world champion in the 2005 ACM-International Collegiate Programming Contest World Finals, competing with 77 teams from around the world.

Dr. Dai received a Bachelor’s degree in Computer Science and Technology in July 2006 and a Master’s degree in Computer Application Technology in March 2009 from Shanghai Jiao Tong University (上海交通大學) in the PRC. He obtained a Ph.D degree in Computer Science and Engineering from The Hong Kong University of Science and Technology (“HKUST”) in Hong Kong in June 2020.

Mr. Chen Yuqiang (陳雨強), aged 35, is an executive Director and Chief Research Scientist of our Company. Mr. Chen joined our Group in March 2015 and has served as our Director since December 2017. He was re-designated as our executive Director on July 16, 2021. He is primarily responsible for the overall management of technology and product research and development.

Prior to joining our Group, Mr. Chen served as Senior Engineer at Baidu Online Network Technology (Beijing) Co., Ltd.* (百度在線網絡技術(北京)有限公司) from April 2012 to May 2014. He then served as Architect at Beijing Bytedance Network Technology Co., Ltd.* (北京字節跳動網絡技術有限公司) from May 2014 to March 2015, where he was responsible for research and development.

Mr. Chen received a Bachelor’s degree in Computer Science and Technology in July 2009, and a Master’s degree in Computer Applied Technology in March 2012 from Shanghai Jiao Tong University (上海交通大學) in the PRC.

Mr. Chen currently serves as the supervisor of certain subsidiaries of our Company including, 4Paradigm Shenzhen, Shanghai Shishuo and 4Paradigm Technology. He also serves as the director of Snowline Technology, one of the subsidiaries of our Group.

Mr. Yu Zhonghao (于中灝), aged 35, is an executive Director, Chief Financial Officer and Vice President of our Company. Mr. Yu joined our Group in May 2018 and has served as our Director since February 2021. He was re-designated as our executive Director on July 16, 2021. He is primarily responsible for the overall management of investment and financing, finance, legal and post-investment related matters.

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Prior to joining our Group, Mr. Yu worked as Business Analyst at Macquarie Investment Advisory (Beijing) Company Limited from January 2011 to March 2012. He then joined the investment banking division of Bank of America Merrill Lynch, Hong Kong Branch in March 2012. Subsequently, Mr. Yu worked at CCB International Asset Management Limited from April 2014 to August 2018, where his last position was Associate Director and Team Head of Direct Investment Division.

Mr. Yu received a Bachelor’s degree in Mathematics and Applied Mathematics from Beihang University (北京航空航天大學) in the PRC in July 2008. He obtained a Master’s degree in Mathematics from University of Cambridge in the United Kingdom in October 2010. Mr. Yu also obtained a Master’s degree in Financial Mathematics from the University of Chicago in the United States in June 2010.

Non-executive Directors

Dr. Yang Qiang (楊強), aged 60, is a non-executive Director of our Company. Dr. Yang joined our Group in November 2014. He was the Chief Science Consultant of the Company from November 2014 to December 2017. He has served as our Director since November 2016 and was re-designated as our non-executive Director on July 16, 2021. He is primarily responsible for overall board affairs, and strategic advice and guidance on product and technology research and development.

Dr. Yang served at School of Computing Science of Simon Fraser University in Canada from September 1995 to August 2004 where he last served as a tenured professor. From September 1989 to August 1995, Dr. Yang worked at the University of Waterloo in Canada where his last position was Associate Professor. Beginning in August 2001, he was with HKUST where he currently serves as Chair Professor of Computer Science and Engineering. He served as New Bright Professor of Engineering from November 2014 to October 2019 and Head of the Department of Computer Science and Engineering of HKUST from January 2015 to December 2017. Dr. Yang was an independent director of WeBank Co., Ltd. (深圳前海微眾銀行股份有限公司) (“**WeBank**”) from December 2016 to April 2018. Dr. Yang has served as an independent non-executive director of China Mobile Limited (NYSE: CHL; SEHK: 941) since May 2018. From June 2012 to October 2014, Dr. Yang worked at Huawei Tech. Investment Co., Ltd. where his last position was the Head of Noah’s Ark Research Lab. Dr. Yang is currently a Management Consultant of WeBank.

Dr. Yang received a Bachelor’s degree in Astrophysics from Peking University (北京大學) in the PRC in July 1982, Master’s degrees of Science in Astrophysics and Computer Science from the University of Maryland, College Park in the United States in May 1984 and December 1987, respectively, and a Doctor’s degree in Computer Science from the University of Maryland, College Park in the United States in August 1989.

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Dr. Yang was the President of International Joint Conference on Artificial Intelligence (IJCAI) from 2017 to 2019, and a Councilor of the Association for the Advancement of Artificial Intelligence (AAAI) until 2019. He serves as the AAAI Conference Chair in 2021. Dr. Yang is a fellow of several international professional societies, including the Institute of Electrical and Electronics Engineers, Inc. (IEEE), American Association for the Advancement of Science (AAAS), International Association for Pattern Recognition (IAPR), AAAI, Association for Computing Machinery (ACM), Chinese Association for Artificial Intelligence (CAAI).

Mr. Dou Shuai (竇帥), aged 32, is a non-executive Director of our Company. Mr. Dou joined our Group as Director in February 2021 and was re-designated as our non-executive Director on July 16, 2021. He is primarily responsible for overall board affairs, and strategic advice and guidance on the business operation of the Group.

Mr. Dou joined Boyu Capital Advisory Company Limited in October 2016, where he currently serves as Vice President. From June 2014 to October 2016, Mr. Dou worked in Global Investment Banking Department of J.P. Morgan Securities (Asia Pacific) Limited.

Mr. Dou received a Bachelor’s degree in Economics in July 2012 and a Master’s degree in Finance in June 2014 from Peking University (北京大學) in the PRC.

Mr. Zhang Jing (張晶), aged 41, is a non-executive Director of our Company. Mr. Zhang joined our Group as Director in February 2021 and was re-designated as our non-executive Director on July 16, 2021. He is primarily responsible for overall board affairs, and strategic advice and guidance on the business operation of the Group.

Mr. Zhang has served at Primavera Capital Limited since June 2010 where his current position is Partner.

Mr. Zhang received a Bachelor’s degree in Accounting in July 2003 and a Master’s degree in Business Administration in July 2005 from Tsinghua University (清華大學) in the PRC.

Independent Non-executive Directors

Mr. Li Jianbin (李建濱), aged 43, was appointed as an independent non-executive Director on July 16, 2021. He is primarily responsible for participating in the decision-making for our Company’s significant events and advising on issues relating to corporate governance, audit and remuneration and assessment of our Directors, Supervisors and senior management.

Mr. Li has over 20 years of experience in tax advisory, investment matters and financial management. He is currently serving as the Managing Partner at the Strategic Investment Department of a subsidiary of Xiaomi Corporation (SEHK: 1810), a position he has held since April 2020, and prior to that, between December 2017 and April 2020, he was the Vice President of the Finance Department where he was responsible for optimizing the capabilities of the group’s Finance Department, managing its tax matters and overseeing its merger and

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acquisition projects. From July 2001 to November 2017, he held various positions at PricewaterhouseCoopers Consultants (Shenzhen) Limited Beijing Branch (普華永道諮詢(深圳)有限公司北京分公司), where his last position was Tax and Commercial Advisory Partner. Currently, Mr. Li also serves as an independent non-executive director of Chaoju Eye Care Holdings Limited (SEHK: 2219).

Mr. Li received a Bachelor’s degree in Laws and Economics from Peking University (北京大學) in the PRC in July 2001. He has been a member of The Chinese Institute of Certified Public Accountants since September 2010 and a member of the China Certified Tax Agents Association since March 2013 and received his PRC lawyer’s practicing licence issued by Ministry of Justice of the PRC in February 2007.

Mr. Liu Chijin (劉持金), aged 60, was appointed as an independent non-executive Director on July 16, 2021. He is primarily responsible for participating in the decision-making for our Company’s significant events and advising on issues relating to corporate governance, audit and remuneration and assessment of our Directors, Supervisors and senior management.

Since June 2002, Mr. Liu has been the Chairman of the Board and General Manager of Pan Pacific Beijing Management and Consulting Co., Ltd.* (北京泛太平洋管理諮詢有限公司), where he is responsible for overall management of the company. Mr. Liu currently also serves as the Director of Xiamen Fantai Business Investment Management Co., Ltd.* (廈門泛泰創業投資管理有限公司) since March 2014. From May 2018 to December 2019, Mr. Liu also serves as an independent director of Yango Group Co., Ltd. (陽光城集團股份有限公司) (SZ: 000671). Since May 2018, Mr. Liu has served as a director of Sanying Precision Instruments Co., Ltd. (天津三英精密儀器股份有限公司) (NEEQ: 839222). Since November 2019, Mr. Liu has also been an independent director of Yankuang (Shandong) Equity Interest Investment Management Co., Ltd.* (兗礦(山東)股權投資管理有限責任公司).

Mr. Liu received a Bachelor’s degree in Physics from Xiamen University (廈門大學) in the PRC in July 1985 and a Master’s degree in Business Administration from the Harvard Business School in the United States in June 1997. Mr. Liu obtained both the Professional Qualification of Independent Director from Shenzhen Stock Exchange and Qualification of Fund Practitioners from the Asset Management Association of China in July 2016.

Ms. Ke Yele (柯燁樂), aged 41, was appointed as an independent non-executive Director on August 8, 2022. She is primarily responsible for participating in the decision-making for our Company’s significant events and advising on issues relating to corporate governance, audit and remuneration and assessment of our Directors, Supervisors and senior management.

Ms. Ke has been serving as the general manager of the Belle Consumer Fund of Belle International (China) Limited since May 2021. From January 2012 to January 2016, Ms. Ke served at Sequoia Capital Consulting (Beijing) Co. Ltd. (紅杉資本顧問諮詢(北京)有限公司), where her last position was the vice president. She was the founding partner of Shanghai

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Fengshang Investment Management Co., Ltd. (上海峰上投資管理有限公司) (the general partner of Shanghai Fengshang Venture Capital Partnership (Limited Partnership), one of our [REDACTED] investors until August 2019) from March 2016 to May 2021.

Ms. Ke received a Bachelor’s degree in International Economics and Trade from Fudan University (復旦大學) in the PRC in July 2003. Ms. Ke was admitted as a non-practising member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in September 2006, a registered tax agent of China Certified Tax Agents Association (中國註冊稅務師協會) in October 2007 and a non-practising member of Shanghai Institute of Certified Public Accountants (上海市註冊會計師協會) in December 2009. She was recognized as a Chartered Financial Analyst by the CFA Institute in July 2015.

SUPERVISORY COMMITTEE

The Supervisory Committee currently consists of three Supervisors as of the date of this Document. The Supervisors include two shareholder Supervisors and one employee Supervisor. The shareholder Supervisors and the employee Supervisor are elected at the Shareholders’ meetings and the staff representative assembly, respectively, for a term of three years, subject to re-election upon their retirement or resignation. The functions and duties of the Supervisory Committee include reviewing financial reports, business reports and profit distribution plans prepared by the Board and overseeing the financial and business performance of our Group. They are also entitled to appoint certified public accountants and practicing auditors to re-examine our Company’s financial information where necessary.

The following table sets out information in respect of the Supervisors.

Name	Age	Position/Title	Date of Appointment as Supervisor	Date of Joining Our Group	Role and Responsibility
Mr. Chai Yifei (柴亦飛)	41	Chairman of the Supervisory Committee, Shareholders’ Representative Supervisor	July 2021	October 2015	Supervising the performance of our Directors and members of senior management, and performing other supervisory duties as a shareholders’ representative Supervisor
Ms. Zhou Wenjing (周文靜)	40	Shareholders’ Representative Supervisor	July 2021	March 2018	Supervising the performance of our Directors, and members of senior management and performing other supervisory duties as a shareholder’s representative Supervisor

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Position/Title	Date of Appointment as Supervisor	Date of Joining Our Group	Role and Responsibility
Ms. Shao Liling (邵麗玲)	39	Employee Supervisor	July 2021	December 2015	Monitoring financial position of our Group, and supervising the performance of Directors and senior management as a representative of our employees

Note: Each of our Supervisors had no relationship with other Directors, Supervisors or members of senior management of our Company as at the Latest Practicable Date.

Supervisors

Mr. Chai Yifei (柴亦飛), aged 41, is Chairman of our Supervisory Committee, a shareholders’ representative Supervisor and Vice President of our Company. Mr. Chai joined our Group in October 2015 and is primarily responsible for supervising the performance of our Directors and members of senior management, and performing other supervisory duties as a shareholders’ representative Supervisor.

Prior to joining our Group, Mr. Chai served at IBM (China) Co., Ltd. (國際商業機器(中國)有限公司) from August 2007 to January 2014, where his last position was Big Data Consulting Senior Manager. He was responsible for big data management and analysis for clients in finance industry, and industry consulting for clients in retail and logistics industries. He then served at Deloitte Consulting (Shanghai) Co., Ltd. (德勤管理諮詢(上海)有限公司) from January 2014 to October 2015, where his last position was Management Consulting Manager.

Mr. Chai received a Bachelor’s degree in Electronic Information Science and Technology in July 2003 and a Master’s degree in Computer System Structure from Fudan University (復旦大學) in the PRC in July 2007.

Ms. Zhou Wenjing (周文靜), aged 40, is a shareholders’ representative Supervisor of our Company. Ms. Zhou joined our Group in March 2018. She is primarily responsible for supervising the performance of our Directors and members of senior management, and performing other supervisory duties as a shareholders’ representative Supervisor. She is also in charge of post-investment matters and serves as Assistant to our Chief Executive Officer.

Prior to joining our Group, Ms. Zhou served at PricewaterhouseCoopers Zhong Tian LLP Beijing Branch (普華永道中天會計師事務所(特殊普通合伙)北京分所) from August 2006 to August 2011 where her last position was Senior Executive of the Human Resources Department. She then served as Campus Recruiting, Training and Development Manager at John Deere (China) Investment Co., Ltd. (約翰迪爾(中國)投資有限公司) from September 2011 to November 2013. From November 2013 to September 2015, Ms. Zhou worked at Microsoft

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(China) Co., Ltd. (微軟(中國)有限公司) where her last position was University Recruiter. From October 2015 to March 2018, Ms. Zhou served as Senior Campus Recruiting Manager at Sanliuling Technology Co., Ltd. (三六零科技集團有限公司).

Ms. Zhou received a Bachelor’s degree in Ideology and Political Education from Peking University (北京大學) in the PRC in July 2006.

Ms. Shao Liling (邵麗玲), aged 38, is our employee Supervisor, and Internal Audit Director of our Company. Ms. Shao joined our Group in December 2015 and is primarily responsible for monitoring financial position of our Group and supervising the performance of Directors and senior management as a representative of our employees.

Prior to joining our Group, Ms. Shao Liling worked at Raffles-BICT International College (北服-萊佛士國際學院) from July 2006 to April 2011. She then served as Head of Finance at Beyondsoft Corporation (博彥科技股份有限公司) from May 2011 to September 2013. From September 2013 to May 2015, she worked at Beijing Star World Technology Co., Ltd. (北京世界星輝科技有限公司). Ms. Shao also served as a Financial Analysis Manager at Thunder Software Technology Co., Ltd. (中科創達軟件股份有限公司) from June 2015 to December 2015, where she was responsible for financial budgeting and operation analysis. From December 2015 to October 2016, Ms. Shao served as Senior Finance Manager at 4Paradigm Beijing where she was responsible for setting up the finance system and building the finance team. She then served as Senior Finance Manager at Beijing Zsvision Co., Ltd. (北京眾盛優視科技有限公司) from November 2016 to June 2017, where she was responsible for developing the finance system and internal control. Ms. Shao rejoined 4Paradigm Beijing in July 2017 and served as deputy Finance Director until August 2021, being responsible for setting up the finance system and building the finance team. Ms. Shao serves as the Internal Audit Director since August 2021.

Ms. Shao received a Bachelor’s degree in Management from Renmin University of China (中國人民大學) in the PRC in January 2009. Ms. Shao obtained the Certificate of Accounting Profession (會計從業資格證書) from Beijing Municipal Finance Bureau in February 2003, and subsequently obtained the Preliminary Accountant Title (會計初級職稱) and Intermediate Accountant Title (會計中級職稱) from Ministry of Finance of the PRC in May 2006 and January 2016, respectively.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

The following table sets out information regarding the members of senior management of our Company.

Name	Age	Position/Title	Date of Appointment	Date of Joining Our Group	Role and Responsibility	Expiration Date of Employment Contracts of Senior Management Member
Dr. Dai Wen Yuan (戴文淵)	39	Chairman of the Board, Executive Director, Chief Executive Officer and General Manager	August 2015, January 2015, August 2015	January 2015	Overall strategic planning, business and technology direction and operational management	December 31, 2022
Mr. Pei Misi (裴瀾思)	42	President	July 2019	July 2019	Overall strategic planning, and management of business and sales and customer success	June 30, 2023
Mr. Chen Yuqiang (陳雨強)	35	Executive Director and Chief Research Scientist	December 2017, March 2015	March 2015	Overall management of technology and product research and development	December 31, 2022
Mr. Hu Shiwei (胡時偉)	35	Chief Architect	March 2015	March 2015	Overall management of technology and product architect and design	December 31, 2022
Mr. Yu Zhonghao (于中灝)	35	Executive Director, Chief Financial Officer and Vice President	February 2021, January 2021, May 2018	May 2018	Overall management of investment and financing, finance, legal and post-investment related matters	September 30, 2025
Mr. Tu Weiwei (涂威威)	34	Principal Scientist and Vice President	April 2015	April 2015	Leading our research and development of machine learning algorithm and other academic research	March 31, 2023
Mr. Zheng Zhao (鄭塋) (formerly known as Mr. Zheng Meng (鄭盟))	33	Vice President	October 2018	October 2018	Leading our AI technology structure planning and relevant product and technology research	October 22, 2022

Note: Each of our members of senior management had no relationship with other Directors, Supervisors or members of senior management of our Company as at the Latest Practicable Date.

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Dr. Dai Wenyuan (戴文淵), aged 39, is the Chairman of our Board, an executive Director, Chief Executive Officer and General Manager of our Company. For details of his biography, see “– Board of Directors.”

Mr. Pei Misi (裴瀾思), aged 42, is the President of our Company. Mr. Pei joined our Group in July 2019. He is primarily responsible for overall strategic planning, and management of business and sales and customer success.

Prior to joining our Group, Mr. Pei served at SAP (China) Holding Co. Ltd from February 2012 to June 2019, where his last position was Vice President.

Mr. Pei received a Bachelor’s degree in Enterprise Management (International Enterprise Operation Management) in July 2002 and a Master’s degree in Management Engineering from Tianjin Normal University (天津師範大學) in the PRC in June 2005.

Mr. Chen Yuqiang (陳雨強), aged 35, is an executive Director and Chief Research Scientist of our Company. For details of his biography, see “– Board of Directors.”

Mr. Hu Shiwei (胡時偉), aged 35, is the Chief Architect of the Company. Mr. Hu joined our Group as Chief Architect in March 2015 and was the shareholders’ representative Supervisor from November 2016 to July 2021. He is primarily responsible for overall management of technology and product architect and design.

Prior to joining our Group, Mr. Hu served as a Senior Research and Development Engineer at Baidu.com Times Technology (Beijing) Co., Ltd. (百度時代網絡技術(北京)有限公司) from April 2011 to June 2014, where he was responsible for providing support in relation to technology architecture. Before joining our Group in March 2015, Mr. Hu served as Head of Internet Research and Development Department at Beijing Home Link Real Estate Broker Co., Ltd. (北京鏈家房地產經紀有限公司) from June 2014. Mr. Hu currently serves as a director of Paradigm Telian, one of the subsidiaries of our Group.

Mr. Hu received a Bachelor’s degree in Computer Science and Technology in July 2008 and a master’s degree in Computer Software and Theory in March 2011 from Shanghai Jiao Tong University (上海交通大學) in the PRC.

Mr. Yu Zhonghao (于中灝), aged 35, is an executive Director, Chief Financial Officer and Vice President of our Company. For details of his biography, see “– Board of Directors.”

Mr. Tu Weiwei (涂威威), aged 34, is the Principal Scientist and Vice President of our Company. Mr. Tu joined our Group in April 2015. He is primarily responsible for leading our research and development of machine learning algorithm and other academic research.

Prior to joining our Group, Mr. Tu served as a Senior Engineer of Research and Development at Baidu (China) Co., Ltd. (百度(中國)有限公司) from July 2012 to March 2015.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Tu received a Bachelor’s degree in Computer Science and Technology and a Master’s degree in Computer Application Technology from Nanjing University (南京大學) in the PRC in June 2009 and in June 2012, respectively.

Mr. Zheng Zhao (鄭壘) (formerly known as Mr. Zheng Meng (鄭盟)), aged 33, is Vice President of our Company. Mr. Zheng joined our Group in October 2018. He is primarily responsible for leading our AI technology structure planning and relevant product and technology research.

Prior to joining our Group, Mr. Zheng served as a Research Assistant at HKUST from September 2011 to July 2012, where he was responsible for academic research in the Department of Computer Science and Engineering. From October 2012 Mr. Zheng worked at Google Inc., following which he served as Software Engineer at Pinterest Inc. (NYSE: PINS) from November 2015 to October 2018.

Mr. Zheng received a Bachelor’s degree in Computer Science and Technology from Shanghai Jiao Tong University (上海交通大學) in the PRC in July 2011. In 2010, Mr. Zheng was awarded as a world champion in the 2010 ACM-International Collegiate Programming Contest World Finals, competing with 102 teams from around the world.

Except as disclosed above, each of our Directors, Supervisors and members of senior management has not been a director of any public company whose securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this Document.

Except as disclosed above, none of our Directors has any interests in any business, which competes or is likely to compete, either directly or indirectly, with our business which would require disclosure under Rule 8.10 of the Listing Rules.

Except as disclosed above, none of our Directors, Supervisors and members of the senior management is related to other Directors, Supervisors and members of the senior management.

Except as disclosed herein, to the best knowledge, information and belief of our Directors and Supervisors having made all reasonable inquiries, there was no other matter with respect to the appointment of our Directors and Supervisors that needs to be brought to the attention of the Shareholders, and there was no information relating to our Directors and Supervisors that is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

JOINT COMPANY SECRETARIES

Mr. Xiong Fei (熊飛) was appointed as Board Secretary and Joint Company Secretary in July 2021 and August 2021, respectively. Mr. Xiong joined our Group as Vice President in August 2020, responsible for the Group’s investment and financing activities. Prior to joining our Group, Mr. Xiong worked as Analyst at Royal Bank of Scotland until February 2010. He worked at Barclays Capital from March 2010 to September 2012. From September 2012 to June 2020, Mr. Xiong served at CDH Investments Management (Hong Kong) Limited where his last position was Executive Director of Private Equity.

Mr. Xiong received a Bachelor’s degree in Economics in July 2007 and a Master’s degree in Economics in July 2009 from Peking University (北京大學) in the PRC.

Ms. Yeung Siu Wai Kitty (楊小慧) was appointed as the other Joint Company Secretary of our Company in August 2021. Ms. Yeung is a Manager of Corporate Services of Tricor Services Limited. She has over 14 years of experience in the corporate secretarial field and she has been providing professional corporate services to Hong Kong listed companies as well as private and offshore companies.

Ms. Yeung is an Associate of both The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators). Ms. Yeung holds a Bachelor of Social Science (Honours) in Administration and Public Management from the City University of Hong Kong and a Master of Corporate Governance from The Open University of Hong Kong (presently known as Hong Kong Metropolitan University).

BOARD COMMITTEES

Our Board delegates certain responsibilities to various committees. In accordance with the relevant PRC laws and regulations and the Corporate Governance Code, Appendix 14 to the Listing Rules, our Company has formed three Board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Audit Committee

We have established an Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.4 and paragraph D.3 of Part 2 of the Corporate Governance Code, Appendix 14 to the Listing Rules. The Audit Committee consists of three Directors, namely Mr. Li Jianbin, Mr. Liu Chijin and Dr. Yang Qiang. Mr. Li Jianbin, who holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules, serves as the Chairman of the Audit Committee. The primary duties of the Audit Committee include, but not limited to, the following:

- proposing the appointment or change of external auditors to our Board, and monitoring the independence of external auditors and evaluating their performance;
- guiding internal audit work;
- examining the financial information of our Company, reviewing financial reports and statements of our Company and giving comments on relevant matters;
- assessing the effectiveness of internal control;
- coordinating the communication among management, internal audit department, related departments and external audit agency; and
- dealing with other matters that are authorized by the Board or involved in relevant laws and regulations.

Remuneration Committee

We have established a Remuneration Committee with written terms of reference in compliance with paragraph E.1 of Part 2 of the Corporate Governance Code, Appendix 14 to the Listing Rules. The Remuneration Committee consists of three Directors, namely Ms. Ke Yele, Dr. Yang Qiang and Mr. Li Jianbin. Ms. Ke Yele serves as the Chairlady of the Remuneration Committee. The primary duties of the Remuneration Committee include, but not limited to, the following:

- formulating individual remuneration plans for Directors, Supervisors and members of the senior management in accordance with the terms of reference of the job responsibilities, the importance of their positions as well as the remuneration benchmarks for the relevant positions in the other comparable companies;
- examining the criteria of performance evaluation of Directors and the senior management of our Company, and conducting annual performance evaluation;
- supervising the implementation of the remuneration plan of the Company; and
- dealing with other matters that are authorized by the Board.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Nomination Committee

We have established a Nomination Committee with written terms of reference in compliance with paragraph B.3 of Part 2 of the Corporate Governance Code, Appendix 14 to the Listing Rules. The Nomination Committee consists of three Directors, namely Dr. Dai Wenyuan, Mr. Liu Chijin and Mr. Li Jianbin. Dr. Dai Wenyuan serves as the Chairman of the Nomination Committee. The primary duties of the Nomination Committee include, but not limited to, the following:

- making recommendations to our Board with regards to the size and composition of our Board based on our Company’s business operation, asset scale and equity structure;
- researching and developing standards and procedures for the election of our Board members, general managers and members of the senior management, and making recommendations to our Board;
- conducting extensive search and providing to our Board suitable candidates for Directors, general managers and other members of the senior management;
- examining our Board candidates, general manager and members of the senior management and making recommendations to our Board;
- assessing and reviewing the independence of independent non-executive Directors; and
- dealing with other matters that are authorized by our Board.

EMPLOYMENT ARRANGEMENT OF SENIOR MANAGEMENT

We normally enter into (i) an employment contract and (ii) a confidentiality and non-competition agreement with each of our senior management members. The key terms of such contracts are set forth below.

- *Terms:* We normally enter into a four-year or non-fixed term employment contract with our senior management members. For details of the expiration date of the employment contracts of our senior management members, please refer to the paragraph headed “— Senior Management” in this section.
- *Non-competition:* the non-competition obligations shall subsist throughout the employee’s period of employment and up to two years after termination of employment. During the non-competition period, without prior written consent from our Company, the employee shall not (i) instigate, induce, solicit or encourage any of our employees to terminate the employment relationship with us; (ii) solicit any of our customers or suppliers to terminate the business relationship with us or

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

substantially reduce the transaction amount with us; and (iii) engage in a business (self-owned or others’) of the same industry as our Company, or hold any position in any other entity which engages in similar business, develops and sells similar solutions developed or sold by our Company, or competes with our Company.

Confidentiality

- *Confidential information:* The employee shall keep confidential information, namely confidential business-related information of our Company, including but not limited to any invention, product, computer software, and technical solutions that were developed in the course of work or based on our Company’s technology or business information. The employee shall also keep in confidence business secrets and related business arrangements of our business partners that he or she becomes aware in the course of work, and any confidential business information that the employee is responsible to keep for any other third parties.
- *Obligation and duration:* The employee shall not, without prior written approval from the Company, divulge, publish, transfer or otherwise disclose any confidential information to any third party, or any of our employees who is not permitted to receive such information under the confidentiality policy. Such obligation of confidentiality shall continue to be effective for the term of his or her employment and thereafter, and until the relevant information has been publicized by our Company or otherwise known to the public.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Our Directors and Supervisors received their remuneration in the form of salaries, social security, housing benefits and other employee benefits, the employer’s contribution to the pension plans, discretionary bonuses and share-based compensation.

For the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, the aggregate amount of emoluments paid or payable to our Directors amounted to approximately RMB2.8 million, RMB3.6 million, RMB109.5 million and RMB2.8 million.

For the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, the aggregate amount of emoluments paid or payable to our Supervisors amounted to approximately RMB1.5 million, RMB1.8 million, RMB8.5 million and RMB2.6 million.

Under the arrangement currently in force, we estimate the total compensation before taxation to be accrued to our Directors and our Supervisors for the year ending December 31, 2022 to be approximately RMB10.9 million. The actual remuneration of Directors and Supervisors in 2022 may be different from the expected remuneration.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

For each of the years ended December 31, 2019, 2020 and the six months ended June 30, 2022, there was not any Directors or Supervisors among the five highest paid individuals. For the year ended December 31, 2021, there were two Directors among the five highest paid individuals. The total emolument for the remaining individuals among the five highest paid individuals for the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022 were RMB159.8 million, RMB138.4 million, RMB96.7 million and RMB8.3 million, respectively.

We confirmed that during the Track Record Period, no remuneration was paid by our Company to, or receivable by, our Directors, Supervisors or the five highest paid individuals as an inducement to join or upon joining our Company or as compensation for loss of office in connection with the management positions of any subsidiary of our Company.

During the Track Record Period, none of our Directors or Supervisors waived any remuneration. Save as disclosed above, no other payments have been paid, or are payable, by our Company or any of our subsidiary to our Directors, Supervisors or the five highest paid individuals during the Track Record Period.

For details regarding the terms of the Employee Incentive Scheme, please refer to the section headed “Statutory and General Information – Further Information about Our Directors, Supervisors, Senior Management and Substantial Shareholders – 5. Employee Incentive Scheme” in Appendix VI to this Document.

CORPORATE GOVERNANCE

Our Company is committed to achieving high standards of corporate governance with a view to safeguarding the interests of our Shareholders. To accomplish this, our Company intends to comply with Corporate Governance Code set out in Appendix 14 to the Listing Rules and the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules after the [REDACTED].

Pursuant to code provision C.2.1 of the Corporate Governance Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between Chairman and Chief Executive Officer should be segregated and should not be performed by the same individual. We do not have a separate Chairman and Chief Executive Officer and Dr. Dai currently performs these two roles. Dr. Dai has assumed the role of Chief Executive Officer of our Company since 2015. He has extensive experience in the business operations and management of our Group and in the AI industry. Our Board believes that, in view of his experience, personal profile and his roles in our Company as mentioned above, Dr. Dai is the Director best suited to identify strategic opportunities and focus of the Board due to his extensive understanding of our business as our Chief Executive Officer. The Board also believes that vesting the roles of both Chairman and Chief Executive Officer in the same person has the benefit of (i) ensuring consistent leadership within the Group, (ii) enabling more effective and efficient overall strategic planning and execution of strategic initiatives of the Board, and (iii) facilitating the flow of information between the

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

management and the Board for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired, and this arrangement will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of Chairman of the Board and Chief Executive Officer of the Company at a time when it is appropriate by taking into account the circumstances of the Group as a whole.

Save as disclosed above, our Directors consider that upon [REDACTED], we will comply with all applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

BOARD DIVERSITY POLICY

We are committed to promoting the culture of diversity in the Company. We have strived to promote diversity to the extent practicable by taking into consideration a number of factors in our corporate governance structure.

We have adopted the board diversity policy (the “**Board Diversity Policy**”) which sets out the objective and approach to achieve and maintain diversity of our Board in order to enhance the effectiveness of our Board. Pursuant to the board diversity policy, we seek to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, race, cultural background, educational background, industry experience and professional experience. Our Directors have a balanced mix of knowledge and skills, including knowledge and experience in the areas of business management, computer science, AI technology, legal, economics, investment and accounting. They obtained degrees in various areas including computer science, law, economics, mathematics, astrophysics, finance. Our board diversity policy is well implemented as evidenced by the fact that there are Directors ranging from 32 years old to 60 years old with experience from different industries, sectors and genders.

We will continue to take steps to promote gender diversity at all levels of our Company, including but not limited to our Board and the senior management levels. We will encourage our incumbent Board members to recommend female candidate directors and take other actions to help achieve greater board diversity, for example inviting some of our outstanding female staff at mid to senior level to attend and observe Board meeting. This will allow our Board to understand more about these potential female candidates before they are nominated to our Board and provide opportunities for potential female candidates to prepare themselves for director duties. We will also continue to ensure that there is gender diversity when recruiting staff at mid to senior level so that we will have a pipeline of female senior management and potential successors to our Board in due time to ensure gender diversity of our Board. Our Group will continue to emphasize training of female talent and providing long-term development opportunities for our female staff including but not limited to business operation, management, accounting and finance, legal and compliance. As such, we are of the view that our Board will be offered chances to identify competent female staff at mid to senior level to be nominated as a Director in future with a pipeline of female candidates.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

We are committed to adopting a similar approach to promote diversity within management (including but not limited to the senior management) of the Company to enhance the effectiveness of corporate governance of the Company as a whole.

Our Nomination Committee is responsible for ensuring the diversity of our Board members. After the [REDACTED], our Nomination Committee will review the board diversity policy from time to time, develop and review measurable objectives for implementing the policy, and monitor the progress on achieving these measurable objectives to ensure its continued effectiveness. We will disclose in our corporate governance report about the implementation of the board diversity policy on an annual basis.

COMPLIANCE ADVISOR

We have appointed Guotai Junan Capital Limited as our compliance advisor (the “**Compliance Advisor**”) pursuant to Rules 3A.19 and 19A.05 of the Listing Rules. The Compliance Advisor will provide us with guidance and advice as to compliance with the Listing Rules and other applicable laws, rules, codes and guidelines. Pursuant to Rule 3A.23 of the Listing Rules, the Compliance Advisor will advise our Company in certain circumstances including:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where we propose to use the [REDACTED] of the [REDACTED] in a manner different from that detailed in this Document or where our business activities, developments or results deviate from any forecast, estimate or other information in this Document; and
- (d) where the Hong Kong Stock Exchange makes an inquiry to our Company regarding unusual movements in the price or trading volume of its listed securities or any other matters in accordance with Rule 13.10 of the Listing Rules.

Pursuant to Rule 19A.06 of the Listing Rules, the Compliance Advisor will, on a timely basis, inform our Company of any amendment or supplement to the Listing Rules that are announced by the Hong Kong Stock Exchange. The Compliance Advisor will also inform our Company of any new or amended law, regulation or code in Hong Kong applicable to us, and advise us on the continuing requirements under the Listing Rules and applicable laws and regulations.

The term of the appointment will commence on the [REDACTED] and is expected to end on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the [REDACTED].

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately prior to the [REDACTED], our Company is owned as to 24.25% by Dr. Dai, 14.61% by Paradigm Investment and 2.31% by Paradigm Yinyuan. Both Paradigm Investment and Paradigm Yinyuan are indirectly controlled by Dr. Dai and Ms. Wu, through Beijing New Wisdom, being the sole general partner of Paradigm Investment and Paradigm Yinyuan and owned as to 99% by Dr. Dai and 1% by Ms. Wu, respectively. Paradigm Chuqi (whose general partner is Beijing New Wisdom) owns 59.59% limited partnership interest in Paradigm Investment. Paradigm Tianqin (whose general partner is Beijing New Wisdom) owns 37.92% limited partnership interest in Paradigm Yinyuan. Accordingly, Dr. Dai as our Controlling Shareholder, by himself and through his close associates, Ms. Wu, Beijing New Wisdom, Paradigm Investment, Paradigm Yinyuan, Paradigm Chuqi and Paradigm Tianqin, controlled approximately 41.18% of our total issued share capital as of the Latest Practicable Date, and together, they constitute our Controlling Shareholders (as defined under the Listing Rules) before the [REDACTED]. As confirmed by Sequoia Capital China and Ms. Wu, Ms. Wu does not have any shareholding or partnership interest in SCC Venture V-Mars(HK) Limited, Sequoia Hanchen, Sequoia Mingde and Sequoia Zhisheng, which are the existing shareholders of the Company.

Immediately following the completion of the [REDACTED] and assuming the [REDACTED] is not exercised, Dr. Dai (by himself) and through his close associates, being Ms. Wu, Beijing New Wisdom, Paradigm Investment, Paradigm Yinyuan, Paradigm Chuqi and Paradigm Tianqin will control approximately [REDACTED]% of our total issued share capital and they will remain as our Controlling Shareholders upon [REDACTED].

For details of Beijing New Wisdom, Paradigm Investment, Paradigm Yinyuan, Paradigm Chuqi and Paradigm Tianqin, see the sections headed “Definitions” and “History, Development and Corporate Structure.”

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors consider that we are capable of carrying on our business independently from the Controlling Shareholders and their close associates after the [REDACTED], taking into account the factors below.

Management Independence

We are able to carry on our business independently from the Controlling Shareholders from a management perspective. Our Board consists of nine Directors, including three executive Directors, three non-executive Directors and three independent non-executive Directors.

- (a) each Director is aware of his/her fiduciary duties as a director which require, among other things, that he/she acts for the benefit and in the interest of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interests;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (b) our daily management and operations are carried out by a senior management team, all of whom have substantial experience in the industry in which our Company is engaged, and will therefore be able to make business decisions that are in the best interests of our Group;
- (c) we have three independent non-executive Directors and certain matters of our Company must always be referred to the independent non-executive Directors for review;
- (d) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and a Director and/or his/her associate, he/she shall abstain from voting and shall not be counted towards the quorum for the voting; and
- (e) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and the Controlling Shareholders which would support our independent management.

Based on the above, our Directors believe that our Board as a whole and together with our senior management are able to perform the managerial role in our Group independently from the Controlling Shareholders and their close associates after the [REDACTED].

Operational Independence

We do not rely on the Controlling Shareholders and their close associates for our business development, staffing, logistics, administration, finance, internal audit, information technology, sales and marketing, or company secretarial functions. We have our own departments specializing in these respective areas which have been in operation and are expected to continue to operate separately and independently from the Controlling Shareholders and their close associates. In addition, we have our own headcount of employees for our operations and management for human resources.

We have independent access to suppliers and customers and an independent management team to handle our day-to-day operations. We are also in possession of all relevant licenses necessary to carry on and operate our principal businesses and we have sufficient operational capacity in terms of capital and employees to operate independently.

Based on the above, our Directors believe that we are able to operate independently from the Controlling Shareholders and their close associates.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Financial Independence

We have an independent financial system and make financial decisions according to our Group’s own business needs. We have internal control and accounting systems and an independent finance department for discharging the treasury function. We do not expect to rely on the Controlling Shareholders and their close associates for financing after the [REDACTED] as we expect that our working capital will be funded by cash flows generated from operating activities, bank loans as well as the [REDACTED] from the [REDACTED].

We have independent access to suppliers and customers and an independent management team to handle our day-to-day operations. We are also in possession of all relevant licenses necessary to carry on and operate our principal businesses and we have sufficient operational capacity in terms of capital and employees to operate independently.

There is no outstanding financial guarantee/assistance provided by our Controlling Shareholders to our Group and vice versa as of the Latest Practicable Date, nor do we have any outstanding share pledges or guarantees provided by our Controlling Shareholders and their respective close associates on our borrowings.

Based on the above, our Directors are of the view that our Directors and senior management are capable of carrying on our business independently of, and do not place undue reliance on, our Controlling Shareholders after the [REDACTED].

INTERESTS OF THE CONTROLLING SHAREHOLDER IN OTHER BUSINESSES

Our Controlling Shareholders and/or our Directors may, from time to time, make minority investments or hold non-executive board positions in entities that operate in the broader industries in which our business segments also operate. As our Controlling Shareholders and/or Directors have no executive or shareholding control over any of these entities, and these entities have separate businesses with separate management and shareholder bases that control their entities, our Controlling Shareholders will not inject any of the interested entities into our Group; and to the extent our Directors hold non-executive board positions or make minority investments in these entities, we believe that this strengthens the experience and diversity of our Directors, as a group, and signifies their passion for the industries in which we operate.

Save and except for the interests of the Controlling Shareholders in our Company and its subsidiaries, the Controlling Shareholders and the Directors confirm that as of the Latest Practicable Date, they did not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE

Our Company will comply with the provisions of the Corporate Governance Code in Appendix 14 to the Listing Rules (the “**Corporate Governance Code**”), which sets out principles of good corporate governance.

Our Directors recognize the importance of good corporate governance in protection of our Shareholders’ interests. We would adopt the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group and the Controlling Shareholders:

- (a) where a Shareholders’ meeting is to be held for considering proposed transactions in which the Controlling Shareholders or any of their respective associates has a material interest, the Controlling Shareholders will not vote on the resolutions and shall not be counted in the quorum in the voting;
- (b) our Company has established internal control mechanisms to identify connected transactions. Upon the [REDACTED], if our Company enters into connected transactions with a Controlling Shareholder or any of his/her/its associates, our Company will comply with the applicable Listing Rules;
- (c) the independent non-executive Directors will review, on an annual basis, whether there is any conflict of interests between the Group and the Controlling Shareholders (the “**Annual Review**”) and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (d) the Controlling Shareholders will undertake to provide all information necessary, including all relevant financial, operational and market information and any other necessary information as required by the independent non-executive Directors for the Annual Review;
- (e) our Company will disclose decisions (with basis) on matters reviewed by the independent non-executive Directors either in its annual report or by way of announcements;
- (f) where our Directors reasonably request the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at our Company’s expenses; and
- (g) we have appointed Guotai Junan Capital Limited as our Compliance Advisor to provide advice and guidance to us in respect of compliance with the Listing Rules, including various requirements relating to corporate governance.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and the Controlling Shareholders, and to protect minority Shareholders’ interests after the [REDACTED].

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the [REDACTED] and assuming the [REDACTED] is not exercised, the following persons will have interests and/or short positions in the Shares or underlying shares of our Company which would fall to be disclosed pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Nature of Interest	Number and class of Shares held as of the date of this Document	Approximate percentage of shareholding in the relevant class of Shares after the [REDACTED] ⁽¹⁾	Approximate percentage of shareholding in the total share capital of our Company after the [REDACTED] ⁽¹⁾
Dr. Dai ⁽³⁾	Beneficial owner	106,164,523 Unlisted Shares	[REDACTED]%	[REDACTED]%
	Interest in controlled corporations	74,068,383 Unlisted Shares	[REDACTED]%	[REDACTED]%
Ms. Wu ⁽²⁾	Interest of spouse	180,232,906 Unlisted Shares	[REDACTED]%	[REDACTED]%
Beijing New Wisdom ⁽³⁾⁽⁴⁾	Interest in controlled corporations	74,068,383 Unlisted Shares	[REDACTED]%	[REDACTED]%
Paradigm Investment ⁽³⁾	Beneficial owner	63,962,734 Unlisted Shares	[REDACTED]%	[REDACTED]%
Paradigm Chuqi ⁽⁴⁾	Interest in controlled corporation	63,962,734 Unlisted Shares	[REDACTED]%	[REDACTED]%
Zhou Kui ⁽⁵⁾	Interest in controlled corporations	18,941,724 Unlisted Shares	[REDACTED]%	[REDACTED]%
Sequoia Capital China Venture ⁽⁶⁾	Beneficial owner	32,259,066 H Shares	[REDACTED]%	[REDACTED]%
SCCV Shareholders ⁽⁶⁾	Interest in controlled corporations	32,259,066 H Shares	[REDACTED]%	[REDACTED]%
YSC Investment I	Beneficial owner	9,858,049 H Shares	[REDACTED]%	[REDACTED]%
YSC Shareholders ⁽⁷⁾	Interest in controlled corporations	9,858,049 H Shares	[REDACTED]%	[REDACTED]%
China-UAE Investment	Beneficial owner	8,475,774 H Shares	[REDACTED]%	[REDACTED]%
China-UAE Shareholders ⁽⁸⁾	Interest in controlled corporations	8,475,774 H Shares	[REDACTED]%	[REDACTED]%
Sinovation Fund III, L.P.	Beneficial owner	6,476,628 H Shares	[REDACTED]%	[REDACTED]%
Sinovation Shareholders ⁽⁹⁾	Interest in controlled corporations	6,476,628 H Shares	[REDACTED]%	[REDACTED]%

SUBSTANTIAL SHAREHOLDERS

Notes:

- (1) The calculation is based on the total number of 362,975,210 Unlisted Shares and [REDACTED] H Shares in issue immediately after completion of the [REDACTED] since 74,730,779 Unlisted Foreign Shares will be converted into H Shares and [REDACTED] H Shares will be issued pursuant to the [REDACTED], and assuming that the [REDACTED] is not exercised.
- (2) Ms. Wu is the spouse of Dr. Dai. By virtue of SFO, Ms. Wu is therefore deemed to be interested in the Shares held by Dr. Dai.
- (3) Paradigm Investment and Paradigm Yinyuan are indirectly controlled by Dr. Dai and Ms. Wu, through Beijing New Wisdom, being the sole general partner of Paradigm Investment and Paradigm Yinyuan. Beijing New Wisdom is a limited liability company established in the PRC and owned as to 99% by Dr. Dai and 1% by Ms. Wu, respectively. Paradigm Investment and Paradigm Yinyuan holds 63,962,734 Domestic Shares and 10,105,649 Domestic Shares, respectively. By virtue of SFO, each of Dr. Dai and Beijing New Wisdom (through his/its interest in a controlled corporation or controlled corporations, as the case may be) are deemed to be interested in the Shares held by each of Paradigm Investment and Paradigm Yinyuan.
- (4) Paradigm Chuqi (whose general partner is Beijing New Wisdom) is interested in more than one third of the limited partnership interest in Paradigm Investment. By virtue of SFO, Paradigm Chuqi is deemed to be interested in the Shares held by Paradigm Investment.
- (5) To the best knowledge of the Company, Sequoia Antai is the general partner of Sequoia Hanchen. The general partner of Sequoia Antai is Shenzhen Sequoia Huanyu Investment Consulting Co., Ltd. (深圳市紅杉恒宇投資諮詢有限公司), which is held as to 70% by Mr. Zhou Kui.

Sequoia Kunde is the general partner of Sequoia Mingde. The general partner of Sequoia Kunde is Shanghai Huanyuan Investment Management Co., Ltd. (上海恒遠投資管理有限公司), which is held as to 97% by Mr. Zhou Kui.

Sequoia Kunsheng is the general partner of Sequoia Zhisheng. The general partner of Sequoia Kunsheng is Ningbo Meishan Free Trade Port Sequoia Huanjia Investment Management Co., Ltd. (寧波梅山保稅港區紅杉恒嘉投資管理有限公司), which is held as to 70% by Mr. Zhou Kui.

By virtue of SFO, Mr. Zhou Kui is therefore deemed to be interested in the Shares held by Sequoia Hanchen, Sequoia Mingde and Sequoia Zhisheng.

- (6) To the best knowledge of the Company, Sequoia Capital China Venture is wholly owned by Sequoia Capital China Venture Fund V, L.P.. SC China Venture V Management, L.P. is the general partner of Sequoia Capital China Venture Fund V, L.P., and in turn SC China Holding Limited is the general partner of SC China Venture V Management, L.P.. SC China Holding Limited is wholly owned by SNP China Enterprises Limited, which is in turn wholly owned by Mr. Neil Nanpeng Shen, our former Director. By virtue of SFO, each of Sequoia Capital China Venture Fund V, L.P., SC China Venture V Management, L.P., SC China Holding Limited, SNP China Enterprises Limited and Mr. Neil Nanpeng Shen (through its/his interest in a controlled corporation or controlled corporations, as the case may be) (together the “**SCCV Shareholders**”) are deemed to be interested in the Shares held by Sequoia Capital China Venture.
- (7) To the best knowledge of the Company, YSC Investment I is owned as to 100% by YSC Investment I (BVI) Ltd., which is held as to approximately 55.6% by Tencent Mobility Limited and 44.4% by Genesis Capital I LP. Tencent Mobility Limited is a wholly-owned subsidiary of Tencent Holdings limited. The general partner of Genesis Capital I LP is Genesis Capital Ltd., which is ultimately controlled by Peng Zhijian. By virtue of SFO, YSC Investment I (BVI) Ltd., Tencent Mobility Limited, Tencent Holdings Limited, Genesis Capital I LP, Genesis Capital Ltd. and Peng Zhijian (together “**YSC Shareholders**”) are deemed to be interested in the Shares held by YSC Investment I.

SUBSTANTIAL SHAREHOLDERS

- (8) To the best knowledge of the Company, China-UAE Investment is owned as to 100% by China-UAE Investment Cooperation (Cayman) Holdings Limited, which is held by China-UAE Investment Cooperation Fund, L.P. The limited partnership interest of China-UAE Investment Cooperation Fund, L.P. is held as to 50.0% by Seventy Seventh Investment Company L.L.C. and 42.5% by China Development Bank International Holdings Limited. By virtue of SFO, China-UAE Investment Cooperation (Cayman) Holdings Limited, China-UAE Investment Cooperation Fund, L.P., Seventy Seventh Investment Company L.L.C. and China Development Bank International Holdings Limited (together “**China-UAE Shareholders**”) are deemed to be interested in the Shares by China-UAE Investment.
- (9) To the best knowledge of the Company, Sinovation Fund Management III, L.P. is the general partner of Sinovation Fund III, with Sinovation Fund III GP, Ltd. being its general partner, which is 100% owned by Kai-Fu Lee. By virtue of SFO, Sinovation Fund Management III, L.P., Sinovation Fund III GP, Ltd. and Kai-Fu Lee (together “**Sinovation Shareholders**”) are deemed to be interested in the Shares by Sinovation Fund III.

For details of the substantial shareholders who will be, directly or indirectly, interested in 10% or more of the value of any class of Shares varying rights to vote in all circumstances at general meetings of any member of our Group, see “Statutory and General Information – Further Information about our Directors, Supervisors, Senior Management and Substantial Shareholders – 1. Disclosure of Interests” in Appendix VI to this Document.

Save as disclosed herein, our Directors are not aware of any persons who will, immediately following completion of the [REDACTED] (assuming the [REDACTED] is not exercised), have interests and/or short positions in Shares or underlying shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SHARE CAPITAL

This section presents certain information regarding our share capital before and upon completion of the [REDACTED].

BEFORE THE [REDACTED]

As of the Latest Practicable Date, the registered capital of our Company was RMB437,705,989, comprising 437,705,989 Shares of nominal value RMB1.00 each, was categorized as follows:

Description of Shares	Number of Shares	Approximate percentage to total share capital (%)
Domestic Shares in issue	356,219,060	81.38
Unlisted Foreign Shares in issue	81,486,929	18.62
Total	437,705,989	100.00

UPON COMPLETION OF THE [REDACTED]

Immediately following completion of the [REDACTED], assuming the [REDACTED] is not exercised, the share capital of our Company will be as follows:

Description of Shares	Number of Shares	Approximate percentage to total share capital (%)
Domestic Shares in issue	356,219,060	[REDACTED]
Unlisted Foreign Shares in issue	6,756,150	[REDACTED]
H Shares converted from Unlisted Foreign Shares	74,730,779	[REDACTED]
H Shares to be issued under the [REDACTED]	[REDACTED]	[REDACTED]
Total	[REDACTED]	100.00

SHARE CAPITAL

Immediately following completion of the [REDACTED], assuming the [REDACTED] is fully exercised, the share capital of our Company will be as follows:

Description of Shares	Number of Shares	Approximate percentage to total share capital (%)
Domestic Shares in issue	356,219,060	[REDACTED]
Unlisted Foreign Shares in issue	6,756,150	[REDACTED]
H Shares converted from Unlisted Foreign Shares	74,730,779	[REDACTED]
H Shares to be issued under the [REDACTED]	<u>[REDACTED]</u>	<u>[REDACTED]</u>
Total	<u><u>[REDACTED]</u></u>	<u><u>100.00</u></u>

SHARE CLASSES

Upon completion of the [REDACTED], we would have two classes of Shares: (i) H Shares, and (ii) Domestic Shares and Unlisted Foreign Shares. H Shares, Domestic Shares, and Unlisted Foreign Shares are all ordinary Shares in the share capital of our Company. However, apart from certain qualified domestic institutional investors in the PRC, the qualified PRC investors under the Shanghai – Hong Kong Stock Connect or the Shenzhen – Hong Kong Stock Connect and other persons who are entitled to hold our H Shares pursuant to relevant PRC laws and regulations or upon approvals of any competent authorities, H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC.

The differences between (i) H Shares, and (ii) Domestic Shares and Unlisted Foreign Shares and provisions on class rights, the dispatch of notices and financial reports to Shareholders, registration of Shares on different registers of Shareholders, the method of share transfer and appointment of dividend receiving agents are set out in the Articles of Association and summarized in “Appendix V – Summary of Articles of Association.” The rights conferred on any class of Shareholders may not be varied or abrogated unless approved by a special resolution of the general meeting of Shareholders and by the holders of Shares of that class at a separate meeting. The circumstances which shall be deemed to be a variation or abrogation of the rights of a class are listed in “Appendix V – Summary of Articles of Association.”

Except for the differences above, Domestic Shares, Unlisted Foreign Shares and H Shares will however rank *pari passu* with each other in all other respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this Document. All dividends in respect of the H Shares are to be paid by us in Hong Kong dollars or in the form of H Shares.

SHARE CAPITAL

CONVERSION OF OUR UNLISTED SHARES INTO H SHARES

Upon completion of the [REDACTED], all our Domestic Shares and our Unlisted Foreign Shares (other than those converting to H Shares) are not listed or traded on any stock exchange. The holders of our Domestic Shares and our Unlisted Foreign Shares may convert their Shares into H Shares provided such conversion shall have gone through any requisite internal approval process and complied with the regulations prescribed by the securities regulatory authorities of the State Council and the regulations, requirements and procedures prescribed by the overseas stock exchange(s) and have been approved by the securities regulatory authorities of the State Council, including the CSRC. The [REDACTED] of such converted Shares on the Hong Kong Stock Exchange will also require the approval of the Hong Kong Stock Exchange.

In accordance with the Guidelines on Application for “Full Circulation” of Domestic Unlisted Shares of H-share Companies (《H股公司境内未上市股份申请“全流通”业务指引》) (“**Full Circulation Guidelines**”) published and implemented by the CSRC on November 14, 2019, domestic unlisted shares of H-share companies (including domestic unlisted shares held by domestic shareholders prior to the overseas listing, domestic unlisted shares further issued in the PRC after the overseas listing and unlisted shares held by foreign shareholders) could be listed and traded on the Hong Kong Stock Exchange after application to and approval from the CSRC. The Full Circulation Guidelines are applicable to domestic companies listed on the Hong Kong Stock Exchange only and not applicable to companies dual listed in the PRC and on the Hong Kong Stock Exchange. Up to the Latest Practicable Date, there are no relevant rules or guidelines from the CSRC providing that A shares holders may convert A shares held by them into H shares for listing and trading on the Hong Kong Stock Exchange.

The Company filed for application for a “full circulation” of the unlisted foreign shares on March 29, 2022 and submitted the application reports, authorization documents of the shareholders of unlisted foreign shares for which an H-share “full circulation” are applied, explanation about the compliance of share acquisition and others documents in accordance with the requirements of the CSRC.

CSRC acknowledged our application for a “full circulation of the unlisted foreign shares” on April 6, 2022. Upon completion of the [REDACTED], 74,730,779 Unlisted Foreign Shares held by Sequoia Capital China Venture, YSC Investment I, China-UAE Investment, Sinovation Fund III, Major Awesome, Value Global, MIC Capital, CPE Investment (Hong Kong) 2018 Limited, GS Asia II, Haitong International Investment, Stonebridge 2020, Growing Fame and LF Beta will be converted into H Shares on a one-for-one basis. The conversion of these Unlisted Foreign Shares into H Shares have been approved by CSRC on June 14, 2022 and an application has been made to the Listing Committee for such H Shares to be [REDACTED] on the Stock Exchange.

SHARE CAPITAL

Based on the procedures for the conversion of our Domestic Shares and our Unlisted Foreign Shares into H Shares as disclosed in this section, we can apply for the [REDACTED] of all or any portion of our Domestic Shares and our Unlisted Foreign Shares on the Hong Kong Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Hong Kong Stock Exchange and delivery of Shares for entry on the H Share register. As any listing of additional Shares after our initial [REDACTED] on the Hong Kong Stock Exchange is ordinarily considered by the Hong Kong Stock Exchange to be a purely administrative matter, it will not require such prior application for [REDACTED] at the time of our initial [REDACTED] in Hong Kong.

No class Shareholder voting is required for the [REDACTED] and trading of the converted Shares on the Hong Kong Stock Exchange. Any application for [REDACTED] of the converted Shares on the Hong Kong Stock Exchange after our initial [REDACTED] is subject to prior notification by way of announcement to inform Shareholders and the public of such proposed conversion.

After all the requisite approvals have been obtained, the following procedures will need to be completed: the relevant Domestic Shares and Unlisted Foreign Shares will be withdrawn from the Share register and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct the [REDACTED] to issue H Share certificates. Registration on our H Share register will be on the condition that (a) our [REDACTED] lodges with the Hong Kong Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register of members and the due dispatch of H Share certificates and (b) the admission of the H Shares to trade on the Hong Kong Stock Exchange will comply with the Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted Shares are re-registered on our H Share register, such Shares would not be [REDACTED] as H Shares.

Please refer to “Risk Factors – Risks Related to the [REDACTED] – Future sales or perceived sales of a substantial number of our H Shares in the public market could have a material adverse effect on the price of our H Shares and our ability to raise additional capital in the future.”

So far as we are aware, upon completion of the [REDACTED], other than the Shareholders who will convert their Unlisted Foreign Shares into H Shares as mentioned above, none of our Shareholders currently proposes to convert any of their Domestic Shares and Unlisted Foreign Shares into H Shares.

TRANSFER OF SHARES ISSUED PRIOR TO THE [REDACTED]

Pursuant to the PRC Company Law, our Shares issued prior to the [REDACTED] shall not be transferred within one year from the [REDACTED].

For details of the lock-up undertaking given by the Controlling Shareholder pursuant to Rule 10.07 of the Listing Rules see “[REDACTED] – [REDACTED] Arrangements and Expenses – Undertakings pursuant to the Listing Rules and the [REDACTED] – Undertakings by our Controlling Shareholders.”

SHARE CAPITAL

REGISTRATION OF SHARES NOT LISTED ON AN OVERSEAS STOCK EXCHANGE

According to the Notice of Centralized Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange (《關於境外上市公司非境外上市股份集中登記存管有關事宜的通知》) issued by the CSRC, our Company is required to register and deposit our Shares that are not listed on the overseas stock exchange with the China Securities Depository and Clearing Corporation Limited within 15 business days upon the [REDACTED] and provide a written report to the CSRC regarding the centralized registration and deposit of our Shares that are not listed on the overseas stock exchange as well as the [REDACTED] and [REDACTED] of our H Shares.

FINANCIAL INFORMATION

You should read the following discussion and analysis with our consolidated financial information, including the notes thereto, included in the Accountant’s Report in Appendix I to this Document. Our consolidated financial information has been prepared in accordance with IFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions.

The following discussion and analysis contains forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties, many of which we cannot control or foresee. In evaluating our business, you should carefully consider all of the information provided in this Document, including the sections headed “Risk Factors” and “Business.”

For the purpose of this section, unless the context otherwise requires, references to 2019, 2020 and 2021 refer to our financial years ended December 31 of such years. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

We are a leader in enterprise AI. We offer platform-centric AI solutions that can be rapidly deployed by enterprises on a large scale to uncover hidden patterns in data and comprehensively enhance their decision-making capabilities.

We were the largest player by revenue in the platform-centric decision-making AI market, which is a sub-segment of the overall AI market, in China in 2021, according to the CIC Report. We have been leading in the research of advanced AI technologies, and are the pioneer to utilize these technologies in commercial solutions. For example, according to CIC, our proprietary AutoML algorithm is a cutting-edge AutoML algorithm in the world. With our AutoML algorithms, we broke the world records of two Open Graph Benchmark (“OGB”) tasks in April 2021. OGB is a globally recognized collection of benchmark datasets for machine learning on graphs that AI companies and research institutions utilize to test and evaluate their AI model performance. Participants of the OGB tasks include world-famous innovative enterprises and research institutes, such as Facebook, Alibaba, Stanford University and Cornell University. Our AutoML algorithm also ranks top 1% in Kaggle Structured Data and Image Classification Competition 2019. See “Business – Awards and Recognition.” In addition, our founders are pioneers in transfer learning, according to CIC.

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We emphasize value creation. Our solutions have covered a myriad of industries including, but not limited to, finance, retail, manufacturing, energy and power, telecommunications and healthcare. For example, our AI solutions have successfully helped banks enhance anti-fraud accuracy rate, retailers forecast sales volume and formulate precision marketing strategies, manufacturers optimize quality control, and energy companies detect and prevent equipment anomalies and failures. In 2021 and the six months ended June 30, 2022, we had 75 and 74 lighthouse users, respectively. In 2019, 2020 and 2021, the net dollar expansion rates of our lighthouse users were 250%, 167% and 140%, respectively.

Our platform-centric AI solutions seek to overcome challenges faced by in-house development of AI capabilities and point solutions that are designed for scenario-specific use cases, and allow enterprises to benefit from the advancement of AI technologies to the largest extent possible. Leveraging our core technologies, we have developed end-to-end enterprise AI solutions that cater for enterprises’ needs across application, platform and infrastructure levels. Sage Platform is the backbone of our solutions. It allows enterprises to easily build their customized AI systems that automate the process of machine learning, application, decision-making and evaluation driven by our AutoML algorithms, featuring quick, simple build-up, low- and/or no-code environment and implementation without significant involvement of AI experts. Our Sage Platform is primarily composed of the following:

- Sage AIOS is an AI operating system featuring a user-friendly interface, standardized data processing, automated resource management and allocation and fully compatible middleware that are comparable to personal computer operating systems.
- HyperCycle series with no-code development tools and Sage Studio series with low-code and no-code development tools are our core platform-centric AI solutions by which our users can quickly and easily deploy large-scale AI applications.

In addition, we offer ready-to-use AI applications that users could directly deploy to improve their business operations, primarily in the fields of sales and marketing, risk management and operating efficiency in general. We also help users develop customized AI applications on Sage Platform to address their specific business needs.

During the Track Record Period, we have experienced tremendous growth. Our revenue grew by 105.0% from RMB459.5 million in 2019 to RMB942.2 million in 2020, and further by 114.2% to RMB2,018.4 million in 2021, and by 34.3% from RMB788.2 million for the six months ended June 30, 2021 to RMB1,058.2 million for the six months ended June 30, 2022.

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BASIS OF PRESENTATION

The historical financial information of our Group has been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board. The preparation of the historical financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the historical financial information, are disclosed in Note 4 to the Accountant’s Report included in Appendix I to this Document.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

General Factors

Our results of operations are affected by a number of general factors affecting the overall growth and prosperity of the AI industry in China, in particular the decision-making AI market, including:

- China’s overall economic growth;
- the ongoing digitalization of China’s economy;
- technology development of the AI industry, including, but not limited to, the innovations in analytical instruments, the development of computing infrastructure and the accumulation of high quality data;
- accumulation of AI experts in China; and
- awareness of enterprises to deploy AI applications.

Specific Factors Affecting Our Results of Operations

We believe that our results of operations are primarily and more directly affected by the following specific factors:

Our investment in technology innovation and AI solutions

We have made, and will continue to make, significant investments in technology development and AI solutions to strengthen our market leadership. We have been leading in the research of advanced AI technologies, and are the pioneer to utilize these technologies in commercial solutions. Our ability to attract qualified and experienced talents are crucial to our R&D efforts. We intend to continue to invest in attracting more talented research and development personnel by offering competitive compensation, in further developing and

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applying advanced AI and other technologies to enhance the functionality and user experience of our AI solutions, and in strategic investments in and acquisitions of businesses that enhance our technology capabilities and solution offerings. In 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, we incurred research and development expenses of RMB416.4 million, RMB565.7 million, RMB1,249.5 million, RMB578.3 million and RMB557.9 million, respectively, accounting for 90.6%, 60.0%, 61.9%, 73.4% and 52.7% of the revenues for the respective periods. Going forward, we will continue to prudently invest resources in research and development on our platform and infrastructure. Given our systematic development approach and our continuous incorporation of functional improvements, we expect the investment to build our platform and infrastructure in a scalable manner will support the long-term growth of our business.

Our ability to attract and retain our users

Our operating results and growth depend on our ability to attract new users. Guided by our go-to-market strategy, we have served a large number of lighthouse users who are market leaders in the respective domain they operate in and established market presence in an effective manner. As a result of our effective strategies, we had 32, 47, 75, 38 and 74 lighthouse users in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively.

After the initial success with lighthouse users, we leverage our understanding, our reputation established through collaborating with industry leaders and our AI ecosystem to further enhance our influence in the industry, enabling us to further penetrate the respective industry and provide solutions to other players in the industry efficiently.

As a result, we have accumulated a strong and rapidly growing user base. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our number of users was 79, 156, 245, 126 and 197, respectively. We have fostered strong loyalty with our user base by establishing deep collaboration and effectively addressing their needs. We expect to achieve continued growth in the foreseeable future as we continue to attract more users.

Our ability to create value for users with our innovative enterprise AI solutions

We are committed to delivering high quality enterprise AI solutions to create value for our users. Leveraging our advanced technologies, we have developed Sage Platform, a full suite of end-to-end AI solutions that can be rapidly deployed by enterprises on a large scale primarily through on-premise deployment and SageOne, our software-defined “All-in-One” solutions with pre-built Sage Platform and applications on servers and other related hardware. Our future growth will depend on our ability to innovate and create value for our new and existing users with our enterprise AI solutions.

Our existing user base represents a significant opportunity for sales expansion. After we help our users identify the critical issues, provide solutions and achieve the objectives of business improvement, they usually identify incremental opportunities within their operations and expand their use of our solutions. In 2021 and the six months ended June 30, 2022, our

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number of users was 245 and 197, respectively. Our ability to create value for users is evidenced by a net dollar expansion rate of 250%, 167% and 140% for our lighthouse users in 2019, 2020 and 2021, respectively. Our average revenue per lighthouse user increased by 48.2% from RMB8.3 million in 2019 to RMB12.3 million in 2020, and further by 11.4% to RMB13.7 million in 2021. For the six months ended June 30, 2022, our average revenue per lighthouse user was RMB8.9 million, as compared to RMB10.3 million for the six months ended June 30, 2021, primarily because (i) the recurrence of COVID-19 in 2022 had caused temporary disruption to our projects, to the extent that necessary on-site meetings, deployment and technical support had to be delayed or cancelled; and (ii) we acquired significant number of new users in the first half of 2022, which generally contributed lower revenue in the early stage of business cooperation.

Our ability to manage our costs and enhance operating leverage

Our ability to manage and control our costs and operating expenses is critical to the success of our business and our profitability. Our gross profit margin remained stable during the Track Record Period. However, our cost structure is affected by the mix of our solution offerings and might further impact our gross profit margin. For example, with the launch of SageOne, we incurred an increased cost of finished goods sold as a percentage of revenue during the Track Record Period. In addition, we have invested heavily in developing technology capabilities and infrastructure, in order to provide highly scalable and flexible solutions for our users. The solutions we offer are highly modularized, which allows us to address users’ customized demands effectively and efficiently, helping us achieve significant overall cost and operating efficiency. We also incurred an increasing amount of sales and marketing expenses to strategically expand our user base and enter into new verticals, primarily by penetrating lighthouse users. Upon successful penetration of lighthouse users, we expect to obtain further opportunities within the respective industries without incurring significant expenses, thereby enhancing our efficiency in sales and marketing. As a result of our established user base and brand awareness, the efficiency of our sales and marketing personnel has also been increasing.

We are thus well positioned to scale up our revenues while achieving significant cost efficiency and operating leverage. For instance, in 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, our selling and marketing expenses (excluding share-based compensation) as a percentage of our revenues was 21.7%, 24.1%, 17.7%, 17.5% and 16.2%, respectively, and our general and administrative expenses (excluding share-based compensation) as a percentage of our revenues was 19.5%, 12.7%, 8.6%, 9.7% and 13.8%, respectively. Controlling operating expenses to achieve optimal operating efficiency is important to our success. As our business grows in scale, we expect to have significant operating leverage and realize structural cost savings to compete efficiently.

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KEY OPERATING METRICS

The following table sets forth the key operating metrics for the years/periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
Number of users	79	156	245	126	197
Number of lighthouse users	32	47	75	38	74
Average revenue per lighthouse user (RMB million)	8.3	12.3	13.7	10.3	8.9
Net dollar expansion rates for lighthouse users	250%	167%	140%	N/A	N/A

As a result of our effective go-to-market strategy, we had 32, 47, 75, 38 and 74 lighthouse users in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. Our initial success with lighthouse users enable us to further penetrate the respective industry and provide solutions to other players in the industry efficiently. As a result, we have accumulated a strong and rapidly growing total user base including both lighthouse users and other users, with 79, 156, 245, 126 and 197 in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively.

We are dedicated to creating value to our users. After we help them identify the critical issues, provide solutions and achieve the objectives of business improvement, they usually identify incremental opportunities within their operations and expand their use of our solutions. Our ability to create value for users is evidenced by a net dollar expansion rate of 250%, 167% and 140% for our lighthouse users in 2019, 2020 and 2021, respectively. Moreover, the average revenue per lighthouse user amounted to RMB8.3 million, RMB12.3 million, RMB13.7 million, RMB10.3 million and RMB8.9 million in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively.

Driven by our expanding user base and increasing spending from existing users, we have experienced tremendous revenue growth during the Track Record Period. Our revenue grew by 105.0% from RMB459.5 million in 2019 to RMB942.2 million in 2020, and further by 114.2% to RMB2,018.4 million in 2021. Our revenue grew by 34.3% from RMB788.2 million for the six months ended June 30, 2021 to RMB1,058.2 million for the six months ended June 30, 2022.

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IMPACT OF COVID-19

Since the end of December 2019, the outbreak of a novel strain of coronavirus, or COVID-19, has materially and adversely affected the Chinese and global economy.

In response to COVID-19 including the recurrence of COVID-19 in China and across the world, governments across the globe have imposed prolonged lockdowns, mandatory quarantines, closures of workplaces and facilities, travel restrictions and other related measures. The global lockdown and travel restrictions in 2020 have temporarily prevented us from engaging with end users and solution partners through in-person meetings and providing them with deployment and technical support services, especially with the lighthouse users, who are large, established and leading enterprises in various industries and thus tend to implement more stringent COVID-19-related measures than other businesses. The pandemic has caused temporary disruption to our solutions to the extent that necessary on-site meetings, deployment and technical support had to be delayed or cancelled, which had a negative impact on our results of operations in 2020 and 2021. Due to the increased reported COVID-19 cases in China since March 2022, local governments in some cities have implemented a series of precautionary and control measures. Such recurrence of COVID-19 outbreak and the partial lockdown in some cities, such as Beijing and Shanghai, further created uncertainties to our businesses, especially in terms of on-site meetings, deployment and technical support. As of the Latest Practicable Date, we were not aware of any material adverse impacts on our business operations. We will continue to pay close attention to the development of COVID-19 pandemic and dedicate resources to take actions to minimize any adverse impact on our business operations.

Despite temporary disruption caused by COVID-19, we have been able to sustain our strong growth momentum, delivering robust revenue growth in 2021. As the pandemic persists, global demand for automation and AI solutions has continued to accelerate as businesses are increasingly aware of the benefits of going digital. Our revenue increased by 114.2% from RMB942.2 million in 2020 to RMB2,018.4 million in 2021, as a result of the increasing demand for our AI solutions and our continuous value creation for end users. While the pandemic may have been a stimulus for acceleration of automation and AI transformation, we expect the trend of AI transformation to continue post pandemic in the long run. Business decision makers are increasingly aware of the value of high quality AI solutions not only in dealing with pressing workforce issues during the pandemic, but also in empowering organizations and optimizing daily operations. Therefore, the willingness of the whole society and respective vertical industries to improve efficiency through automation and AI solutions are likely to keep strong.

There remains significant uncertainties associated with COVID-19, including the ultimate spread of the virus, the severity and duration of the pandemic and further actions that may be taken by governmental authorities around the world to contain the virus. The full extent to which the COVID-19 pandemic will directly or indirectly impact our business, results of operations, cash flows and financial condition will depend on future developments that are highly uncertain and cannot be accurately predicted. See “Risk Factors – Risks Related to Our Business and Industry – The COVID-19 pandemic presents challenges to our business and the effects of the pandemic could adversely affect our business, financial condition and results of operations.”

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments related to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operational results. Our management continuously evaluates such estimates, assumptions and judgments based on past experience and other factors, including industry practices and expectations of future events which are deemed to be reasonable under the circumstances. There has not been any material deviation from our management’s estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes to these estimates and assumptions in the foreseeable future. Set forth below are accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Our significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in further detail in Note 2 and Note 4 to the Accountant’s Report included in Appendix I to this Document.

Revenue Recognition

Our revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods sold or services supplied, stated net of discounts, returns and value-added taxes. We recognize revenue when the specific criteria have been met for each of our activities, as described below. There has been no significant change in the nature of products/services in relation to each of our revenue streams and the same revenue recognition policy had been applied throughout the Track Record Period.

(a) Sage Platform and applications

Sage Platform and other ready-to-use applications are delivered primarily as (i) licensed software installed at the end users’ servers, and (ii) all-in-one solutions with pre-installed software on server or other related hardware.

For the licensed software provided by us, as the customer can direct the use of and obtain substantially all of the remaining benefits from the licensed software after it is transferred, revenue is recognized at a point in time when the licensed software is delivered to the customer’s designated place, inspected and accepted by the customer.

For all-in-one solutions with pre-installed software on server or other related hardware, as we provide significant customized service of interrelating and integrating the software and server or other related hardware to maximize their synergistic, the contracts generally have a single performance obligation, and revenue is recognized at a point in time when the software pre-installed server or other related hardware is delivered to the customer’s designated place, inspected and accepted by the customer.

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To a lesser extent, we also offer cloud-based subscriptions, where Sage Platform and other ready-to-use applications are delivered to end users for usage with a subscription period, and the revenue is recognized over the subscription period. Such revenue recognized over the subscription period was RMB0.8 million, RMB16.6 million, RMB21.5 million, RMB10.6 million and RMB14.3 million in 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, representing 0.2%, 1.8%, 1.1%, 1.4% and 1.3% of our total revenue for the same periods, respectively. As compared to software license at users servers and SageOne “All-in-One” solutions with pre-built Sage Platform and applications on servers and other related hardware, the cloud-based subscription model requires less investment in infrastructure by the end user. This subscription model merely accounted for a negligible portion of our revenue during the Track Record Period. Going forward, we expect to continue to adopt this model, offering flexible choices to our users with demand for cloud-based Sage Platform and applications.

(b) Application development and other services

Application development and other services consist of customized AI applications development, and other services primarily include AI-empowered precision marketing services which support enterprises to optimize marketing activities.

Application development services primarily take months to complete, the customer cannot benefit from or control the service during the service process and we generally do not have an enforceable right to payment for performance completed to date at all times throughout the duration of the contract, accordingly, revenue is recognized at a point in time when the integrated promised products and services are finally inspected and accepted by the customer.

We act as an agent in AI-empowered precision marketing services considering the fact that we are only responsible for matching resources by using our AI technology, not subject to inventory risk and has no discretion in establishing prices. Therefore, revenue from AI-empowered precision marketing services is measured on a net basis. Such revenue is determined based on actual performance of the marketing. Specifically, such revenue is typically determined (i) on a per-click basis when the relevant marketing content is clicked, (ii) on a per-impression basis when the relevant marketing content is displayed, or (iii) on a per-download basis when the relevant marketing content is downloaded. Accordingly, such revenue is accounted for as variable consideration, which is recognized at a point in time when the performance is highly probable to be reached, indicated by the actual clicks, displays or downloads achieved, as applicable. Our revenue attributable to AI-empowered precision marketing services was RMB10.8 million, RMB30.0 million, RMB31.6 million, RMB19.3 million and RMB1.6 million in 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, representing 2.3%, 3.2%, 1.6%, 2.4% and 0.2% of our total revenue for the same periods, respectively. Customers of our AI-empowered precision marketing services are typically advertisement agencies in China.

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Contract Balance

Timing of revenue recognition may differ from the timing of invoicing to customers. We may perform by transferring goods or services to a customer before the customer pays consideration or before payment is due, and we also may have a right to an amount of consideration before transferring goods or services to a customer. We recognize a contract asset or a contract liability in the consolidated balance sheet, depending on the relationship between our performance and our customer’s payment.

Intangible assets

(a) Goodwill

Goodwill arising from the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (“CGUs”), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

We carry our annual impairment test on goodwill by comparing the recoverable amounts of CGU or group of CGUs to the carrying amounts. Goodwill arising from the several acquisitions was monitored separately and assessed as separate CGUs for the purpose of impairment testing. We recorded RMB335.8 million of goodwill in total as of June 30, 2022.

CGU of Guangzhou Jianxin

The impairment reviews of the goodwill arising from Guangzhou Jianxin in March 2021 have been conducted by our management as of December 31, 2021 and June 30, 2022. For the purposes of the impairment review, the recoverable amount of goodwill is determined based on value in use (“VIU”) calculations by using the discounted cash flow method. For goodwill related to acquisition of Guangzhou Jianxin, management forecasted that the compound annual growth rate in the five-year period from the balance sheet date of December 31, 2021 and June 30, 2022 was 16.2% and 12.5%, respectively,

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and the cash flows beyond the five-year period were extrapolated using the estimated annual growth rates (“terminal growth rate”) of 3.0%. Pre-tax discount rate of 20.9% and 20.7% was used to reflect market assessment of time value and the specific risks relating to the CGU for the impairment review as at December 31, 2021 and June 30, 2022, respectively. The values assigned to the key assumptions and discount rates are consistent with external information sources. The estimated recoverable amount exceeded its carrying values by RMB34,180,000 and RMB83,718,000 as of December 31, 2021 and June 30, 2022, respectively, and management therefore concluded such goodwill was not impaired. The Directors of the Company have considered and assessed that any reasonably possible changes in key parameters would not cause the carrying amount of the CGU of Guangzhou Jianxin exceed its recoverable amount.

For sensitivity analysis conducted during the impairment review as at December 31, 2021, had there been a reduction of the revenue compound annual growth rate of the first five years by 4.3 percentage point, a reduction of terminal growth rate by 3.9 percentage point, or an increase in pre-tax discount rate by 1.5 percentage point in the VIU calculations each in isolation, the recoverable amount of the CGU of Guangzhou Jianxin would be closed to the breakeven point. For sensitivity analysis conducted during the impairment review as at June 30, 2022, had there been a reduction of the revenue compound annual growth rate of the first five years by 11.4 percentage point, a reduction of terminal growth rate by 17.9 percentage point, or an increase in pre-tax discount rate by 4.0 percentage point in the VIU calculations each in isolation, the recoverable amount of the CGU of Guangzhou Jianxin would be closed to the breakeven point.

CGU of Ideal Technology

The impairment reviews of the goodwill arising from Ideal Technology in June 2021 have been conducted by our management as of December 31, 2021 and June 30, 2022. For the purposes of the impairment review, the recoverable amount of goodwill is determined based on VIU calculations by using the discounted cash flow method. For goodwill related to acquisition of Ideal Technology, management forecasted that the compound annual growth rate in the five-year period from the balance sheet date of December 31, 2021 and June 30, 2022 was 26.0% and 24.5%, respectively, and the cash flows beyond the five-year period were extrapolated using a terminal growth rate of 4.0%. Pre-tax discount rate of 17.6% was used to reflect market assessment of time value and the specific risks relating to the CGU for the impairment reviews as at December 31, 2021 and June 30, 2022. The values assigned to the key assumptions and discount rates are consistent with external information sources. The estimated recoverable amount exceeded its carrying values by RMB34,793,000 and RMB52,518,000 as of December 31, 2021 and June 30, 2022, respectively, and management therefore concluded such goodwill was not impaired. The Directors of the Company have considered and assessed that any reasonably possible changes in key parameters would not cause the carrying amount of the CGU of Ideal Technology exceed its recoverable amount.

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For sensitivity analysis conducted during the impairment review as at December 31, 2021, had there been a reduction of the revenue compound annual growth rate of the first five years by 2.6 percentage point, a reduction of terminal growth rate by 1.4 percentage point, or an increase in pre-tax discount rate by 1.1 percentage point in the VIU calculations each in isolation, the recoverable amount of the CGU of Ideal Technology would be closed to the breakeven point. For sensitivity analysis conducted during the impairment review as at June 30, 2022, had there been a reduction of the revenue compound annual growth rate of the first five years by 4.2 percentage point, a reduction of terminal growth rate by 2.6 percentage point, or an increase in pre-tax discount rate by 1.8 percentage point in the VIU calculations each in isolation, the recoverable amount of the CGU of Ideal Technology would be closed to the breakeven point.

CGU of EpicHust

An impairment review of the goodwill arising from EpicHust in June 2022 has been conducted by the management as at June 30, 2022. For the purposes of the impairment review, the recoverable amount of the CGU of EpicHust is determined based on VIU calculations by using the discounted cash flow method. For goodwill related to acquisition of EpicHust, management forecasted that the revenue compound annual growth rate in the five-year period from the balance sheet date is 17.5%, and the cash flows beyond the five-year period were extrapolated using a terminal growth rate of 3.0%. Pre-tax discount rate of 20.3% was used to reflect market assessment of time value and the specific risks relating to the CGU. The values assigned to the key assumptions and discount rates are consistent with external information sources. The estimated recoverable amount of the CGU of EpicHust exceeded its carrying amount by approximately RMB1,937,000 as at June 30, 2022 and management therefore concluded such goodwill was not impaired. As the Group just acquired EpicHust in June 2022 and the acquisition consideration was determined on an arm's length basis, the directors of the Company considered that it is remote for any reasonably possible changes in key parameters that would exceed the percentage points as disclosed in the sensitivity analysis below and therefore concluded that any reasonably possible changes in those key parameters would not cause the carrying amount of the CGU of EpicHust exceed its recoverable amount.

For sensitivity analysis conducted during the impairment review, had there been a reduction of the revenue compound annual growth rate of the first five years by 0.2 percentage point, a reduction of terminal growth rate by 0.4 percentage point, or an increase in pre-tax discount rate by 0.2 percentage point in the VIU calculations each in isolation, the recoverable amount of the CGU of EpicHust would be closed to the breakeven point.

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(b) Other intangible assets

Other intangible assets mainly include software and copyright, technology and customer relationship. They are initially recognized and measured at cost or fair value of intangible assets acquired through business combination. We amortize these intangible assets with a limited useful life using the straight-line method over the following periods:

• Software and copyright	3-5 years
• Technology	5 years
• Customer relationship	5-7 years
• Brand name	10 years

When determining the length of useful lives of these intangible assets, management take into account the (i) estimated period during which such asset can bring economic benefits to us and (ii) the useful life estimated by comparable companies in the market.

In particular, the Company determined the estimated useful life of customer relationship with consideration of the historical cooperation period of existing clients, degree of customer loyalty and historical attrition situation of the customers. In relation to the brand name, the Company considered the historical presence of the brand, its market share in relevant industry, and the remaining period of its business license in determining its estimated useful life.

(c) Research and development expenditures

Research expenditures are recognized as an expense as incurred. Development cost is capitalized only if all of the following conditions are satisfied:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred.

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Investments and other financial assets

(a) *Classification*

We classify our financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
- those to be measured at amortized cost.

The classification depends on our business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether we have made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

We reclassify debt investments when and only when our business model for managing those assets changes.

(b) *Measurement*

At initial recognition, we measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on our business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which we classify our debt instruments:

- *Amortized cost:* Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

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- *Fair value through other comprehensive income (“FVOCI”)*: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains, net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains, net and impairment expenses are presented as a separate line item in the consolidated statement of comprehensive income.
- *Fair value through profit or loss*: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the consolidated statement of comprehensive income within other gains, net in the period in which it arises.

Equity instruments

We subsequently measure all equity investments at fair value. Where our management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when our right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in the consolidated statement of comprehensive income. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(c) *Impairment*

We assess on a forward-looking basis for the expected credit losses on financial assets (including trade receivables, other receivables, term bank deposits, restricted cash and cash and cash equivalents), which is subject to impairment under IFRS 9. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, we apply the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

For others, it is measured as either 12-month expected credit losses 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.

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(d) *Derecognition*

Financial assets

We derecognize a financial asset if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred or we transfer substantially all the risks and rewards of ownership of the financial asset; or (iii) we retain the contractual rights to receive the cash flows of the financial asset, but assume a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows (“pass-through” requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognized in profit or loss:

- the carrying amount of the financial asset transferred;
- the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognized directly in equity.

If we neither transfer nor retain substantially all the risks and rewards of ownership and continue to control the transferred asset, we will continue to recognize the asset to the extent of its continuing involvement and recognize an associated liability.

Other financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

Redemption liabilities

A contract that contains an obligation to purchase our equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount, even if our obligations to purchase is conditional on the counterparty exercising a right to redeem. We undertake such redemption obligations as certain preferred rights are granted to investors in our financing process, the redemption liabilities are recognized as financial liability initially at the present value of the redemption amount and reclassified from equity. Subsequently, the redemption liabilities are measured at amortized cost with interest charged in finance costs.

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We derecognize the redemption liabilities when, and only when, our obligations are discharged, cancelled or have expired. When the preferred rights are waived by investors, the carrying amount of the redemption liability is reclassified to equity.

Share-based payments

(a) Equity-settled share-based payment transactions

We operate a share incentive plan, under which we receive services from our employees as consideration for equity instruments (“options”) of us. The fair value of the services received in exchange for the grant of the equity instruments is recognized as an expense on the consolidated statement of comprehensive income with a corresponding increase in equity.

In terms of the options awarded to employees, the total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

Service and non-marketing performance vesting conditions are included in calculation of the number of options that are expected to vest. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, we revise our estimates of the number of options that are expected to vest based on the service and non-marketing vesting performance conditions. We recognize the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

In some circumstances, employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in reserves will continue to be held in reserves.

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(b) Cash-settled share-based payment transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date. This fair value is with recognition of a corresponding liability. The liability is re-measured at each reporting date up to and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

(c) Modifications

Where the terms of the share-based payment plan are modified, the expense that is not yet recognized for the award is recognized over the remaining vesting period as if the terms had not been modified. If a modification increases the fair value of the equity instruments granted, the incremental fair value granted is included in the measurement of the amount recognized for the services received over the remainder of the vesting period. If we modify the terms or conditions of our equity instruments granted in a manner that reduces the total fair value of the share-based payment arrangement, or is not otherwise beneficial to the employee, we shall nevertheless continue to account for the services received as consideration for the equity instruments granted as if that modification had not occurred.

Leases

We assesses whether a contract is or contains a lease at inception of a contract. We recognize a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, we recognize the lease payments as an operating expense on a straight-line basis over the term of the lease, and payments for these leases are presented in the consolidated statement of cash flows from operating activities.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, we use our incremental borrowing rate specific to the country, term and currency of the contract. In addition, we consider our recent debt issuances as well as publicly available data for instruments with similar characteristics when calculating the incremental borrowing rates.

Lease payments include fixed payments, less any lease incentives, variable lease payments that depend on an index or a rate known at the commencement date, and purchase options or extension option payments if we are reasonably certain to exercise these options. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and right-of-use asset and are recognized as an expense in the consolidated statement of comprehensive income in the period in which the event or condition that triggers those payments occurs.

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A lease liability is remeasured upon a change in the lease term, changes in an index or rate used to determine the lease payments or reassessment of exercise of a purchase option. The corresponding adjustment is made to the related right-of-use asset.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. The right-of-use assets are depreciated starting at the commencement date over the shorter period of useful life of the underlying asset and lease term.

The lease liability is presented in the ‘Lease liabilities’ line and the right-of-use assets are presented in the ‘Right-of-use assets’ line in the consolidated balance sheet. In addition, the principal portion of the lease payments and the interest component are presented within financing activities in the consolidated statement of cash flows.

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DESCRIPTION OF KEY STATEMENT OF COMPREHENSIVE INCOME ITEMS

The table below sets forth our consolidated statements of comprehensive income for the years/periods indicated derived from our consolidated statements of comprehensive income set out in the Accountant’s Report included in Appendix I to this Document:

	For the year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(unaudited)</i>				
	<i>(RMB in thousands)</i>				
Revenue	459,518	942,238	2,018,399	788,205	1,058,224
Cost of sales ⁽¹⁾	(259,437)	(512,503)	(1,064,924)	(441,306)	(529,239)
Gross profit	200,081	429,735	953,475	346,899	528,985
Selling and marketing expenses ⁽¹⁾	(135,817)	(247,829)	(455,001)	(236,500)	(171,716)
General and administrative expenses ⁽¹⁾	(224,482)	(246,493)	(541,730)	(444,332)	(146,009)
Research and development expenses ⁽¹⁾	(416,418)	(565,674)	(1,249,485)	(578,324)	(557,949)
Credit loss allowance	(1,875)	(1,992)	(15,206)	(5,761)	(257)
Other income	10,390	42,583	41,627	13,957	28,516
Other gains, net	17,178	29,604	93,514	47,153	42,109
Operating loss	(550,943)	(560,066)	(1,172,806)	(856,908)	(276,321)
Share of (losses)/profits of investments accounted for using the equity method	(4,228)	(6,477)	3,802	(1,878)	(717)
Finance income	2,383	6,038	24,416	6,909	17,148
Finance costs	(163,935)	(188,978)	(647,111)	(329,778)	(328,470)
Loss before income tax	(716,723)	(749,483)	(1,791,699)	(1,181,655)	(588,360)
Income tax (expenses)/credit	(1,503)	(727)	(10,369)	(5,777)	4,542
Loss for the year/period	(718,226)	(750,210)	(1,802,068)	(1,187,432)	(583,818)
Other comprehensive (loss)/income:					
<i>Item that may be reclassified to profit or loss</i>					
Currency translation differences	(279)	1,451	1,837	814	(2,160)
<i>Item that will not be reclassified to profit or loss</i>					
Share of other comprehensive income of investments accounted for using the equity method	—	—	9,160	—	2,648

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	For the year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
	(unaudited)				
	(RMB in thousands)				
Other comprehensive (loss)/income for the year/period, net of tax	(279)	1,451	10,997	814	488
Total comprehensive loss for the year/period	(718,505)	(748,759)	(1,791,071)	(1,186,618)	(583,330)
Loss attributable to:					
Owners of the Company	(716,576)	(749,650)	(1,785,655)	(1,184,970)	(566,743)
Non-controlling interests	(1,650)	(560)	(16,413)	(2,462)	(17,075)
	(718,226)	(750,210)	(1,802,068)	(1,187,432)	(583,818)
Total comprehensive loss attributable to:					
Owners of the Company	(716,855)	(748,199)	(1,774,658)	(1,184,156)	(566,255)
Non-controlling interests	(1,650)	(560)	(16,413)	(2,462)	(17,075)
	(718,505)	(748,759)	(1,791,071)	(1,186,618)	(583,330)

Note:

- (1) Share-based compensation expenses recognized for the Track Record Period were allocated as follows:

	For the year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
	(unaudited)				
	(RMB in thousands)				
Cost of sales	1,994	1,104	4,603	4,603	—
Selling and marketing expenses	36,045	20,726	98,341	98,341	—
General and administrative expenses	134,830	126,467	368,250	368,250	—
Research and development expenses	60,363	25,368	132,440	132,440	—
Total	233,232	173,665	603,634	603,634	—

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Non-IFRS Measures

To supplement our consolidated financial statements presented in accordance with IFRS, we use adjusted operating loss (a non-IFRS measure) and adjusted net loss (a non-IFRS measure) as additional financial measures, which are not required by, or presented in accordance with, IFRS. We believe that these non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of certain items. We believe that these measures provide useful information to [REDACTED] in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, presentation of adjusted operating loss (a non-IFRS measure) and adjusted net loss (a non-IFRS measure) may not be comparable to similarly titled measures presented by other companies. The use of these non-IFRS measures has limitations as an analytical tool, and [REDACTED] should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial conditions as reported under IFRS.

Adjusted Operating Loss (a non-IFRS measure)

We define adjusted operating loss (a non-IFRS measure) as operating loss by adding back share-based compensation and [REDACTED] expenses. The following table reconciles our adjusted operating loss (a non-IFRS measure) presented to the most directly comparable financial measures calculated and presented in accordance with IFRS, namely operating loss and as a percentage of our total revenue.

For the year ended December 31,						For the six months ended June 30,			
2019		2020		2021		2021		2022	
RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
(unaudited)									
(RMB in thousands, except for percentage)									

Reconciliation of operating loss and adjusted operating loss

Operating loss	(550,943)	(119.9)	(560,066)	(59.4)	(1,172,806)	(58.1)	(856,908)	(108.7)	(276,321)	(26.1)
Add:										
Share-based compensation	233,232	50.8	173,665	18.4	603,634	29.9	603,634	76.6	–	–
[REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Adjusted operating loss	(317,711)	(69.1)	(386,401)	(41.0)	(568,500)	(28.2)	(253,274)	(32.1)	(219,947)	(20.8)

FINANCIAL INFORMATION

Adjusted Net Loss (a non-IFRS measure)

We define adjusted net loss (a non-IFRS measure) as loss for the year/period by adding back share-based compensation, interest expense on redemption liabilities and [REDACTED] expenses. The following table reconciles our adjusted net loss (a non-IFRS measure) presented to the most directly comparable financial measures calculated and presented in accordance with IFRS, namely loss for the year/period and as a percentage of our total revenue.

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(unaudited)									
	(RMB in thousands, except for percentage)									
Reconciliation of loss for the year/period and adjusted net loss										
Loss for the year/period	(718,226)	(156.3)	(750,210)	(79.6)	(1,802,068)	(89.2)	(1,187,432)	(150.7)	(583,818)	(55.2)
Add:										
Share-based compensation	233,232	50.8	173,665	18.4	603,634	29.9	603,634	76.6	–	–
Interest expense on redemption liabilities	162,513	35.3	186,240	19.8	638,682	31.6	328,414	41.7	323,546	30.6
[REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Adjusted net loss	(322,481)	(70.2)	(390,305)	(41.4)	(559,080)	(27.7)	(255,384)	(32.4)	(203,898)	(19.3)

Our management considers that (i) share-based compensation, which relates to share options that we awarded to our employees for their contribution to us, is non-cash in nature and does not result in cash outflow, (ii) interest expense on redemption liabilities is a non-cash item, and (iii) [REDACTED] expenses, which relate to this [REDACTED]. Therefore, by eliminating the impacts of such items in the calculation of non-IFRS adjusted operating loss (a non-IFRS measure) and adjusted net loss (a non-IFRS measure), this measure could better reflect our underlying operating performance and could better facilitate the comparison of operating performance from year to year and from period to period.

FINANCIAL INFORMATION

Revenue

During the Track Record Period, we primarily derived revenue from providing (i) Sage Platform and applications, and (ii) application development and other services. The table below sets forth a breakdown of our revenue, in absolute amounts and as percentages of total revenue, for the years/periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	<i>(unaudited)</i>									
	<i>(in thousands, except for percentages)</i>									
Sage Platform and applications										
Software licensing	64,656	14.1	157,888	16.8	356,156	17.6	106,025	13.5	229,120	21.7
SageOne	189,440	41.2	461,041	48.9	658,398	32.7	270,142	34.2	302,317	28.5
Sub-total	254,096	55.3	618,929	65.7	1,014,554	50.3	376,167	47.7	531,437	50.2
Application development and other services	205,422	44.7	323,309	34.3	1,003,845	49.7	412,038	52.3	526,787	49.8
Total	459,518	100.0	942,238	100.0	2,018,399	100.0	788,205	100.0	1,058,224	100.0

- Sage Platform and applications.** We offer enterprise AI solutions and generate revenue from sales of our Sage Platform and applications. The Sage Platform and applications are delivered primarily through (i) license of software installed on-premise at servers of our end users and (ii) software-defined “All-in-One” solutions, SageOne, with prebuilt Sage Platform and applications, both of which allow our users to develop their own AI applications on Sage Platform. As our users develop more AI applications for new use cases on our platform and/or increase usage in existing use cases which require more computing power, they will need to purchase additional licenses from us for additional computing power, which in turn allows us to capture additional monetization opportunities on a recurring basis. The price of our software license is primarily based on the estimated computing power consumption by reference to the AI applications our users plan to deploy. We charge customers of SageOne by taking into account the number of hardware, required computing power, license fees of our software and service fees for deployment, operation and maintenance.

FINANCIAL INFORMATION

- ***Application development and other services.*** At our users’ request, we primarily offer application development services to help them develop customized AI applications on Sage Platform based on their business needs. We charge them on a project basis, the pricing of which is primarily based on the manpower consumption of the relevant services. In 2019, 2020, 2021 and the six months ended June 30, 2022, the number of our AI application customization project, on a contract number basis, was 90, 213, 357 and 309, respectively. The average revenue per contract was RMB2.1 million, RMB1.4 million, RMB2.2 million and RMB1.7 million in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. Based on the business needs of our users, the contract value of our AI application customization projects varies from project to project, and may range up to over RMB30 million. As our users’ demand for AI applications increases with their business expansion, they will continue to procure our application development services, allowing us to capture more service fees on an on-going basis. To a lesser extent, we also offer other services, which primarily include AI-empowered precision marketing services that help enterprises optimize their marketing activities.

See “Business – Our Enterprise AI Solutions” for more information about our enterprise AI solutions.

Cost of Sales

Our cost of sales consists primarily of (i) cost of finished goods sold, which primarily represents procurement cost of hardware components from third-party vendors; (ii) technology service fees; (iii) employee benefit expenses, which primarily represent wages and benefits of our implementation and maintenance personnel for our enterprise AI solutions; and (iv) others. Technology service fees primarily represent technology implementation costs paid to third-party service providers for delivery, deployment and installation of customized AI applications that we develop at users’ request. These tasks are not sophisticated but would require large amounts of manpower. Hence, we decided to outsource to third-party services providers to save costs and to allow us focus on our core technology R&D operations. Such costs are incurred at the deployment stage and do not recur after deployment. These service providers are typically IT and technology outsourcing service providers in China. To the best of our knowledge, during the Track Record Period and up to the Latest Practicable Date, all of such service providers were Independent Third Parties. During the Track Record Period and up to the Latest Practicable Date, other than as disclosed above and to the best of our knowledge, none of us, our Directors, Supervisors, senior management, or any of our shareholders (who or which to the knowledge of the Directors owned more than 5% of our issued share capital) and any of their respective associates had any interest in, or any other past or present relationships (business, employment, family, trust, financing or otherwise) with such service providers or their ultimate beneficial owners, as applicable.

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The table below sets forth a breakdown of our cost of sales by nature, in absolute amounts and percentages, for the years/periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	<i>(unaudited)</i>									
	<i>(in thousands, except for percentages)</i>									
Technology service fees	78,643	30.3	149,793	29.2	491,093	46.1	205,744	46.6	280,619	53.0
Cost of finished goods sold	147,064	56.7	323,595	63.1	434,021	40.8	186,939	42.4	187,294	35.4
Employee benefit expenses ⁽¹⁾	28,056	10.8	24,181	4.7	78,644	7.4	22,976	5.2	44,390	8.4
Others ⁽²⁾	5,674	2.2	14,934	3.0	61,166	5.7	25,647	5.8	16,936	3.2
Total	259,437	100.0	512,503	100.0	1,064,924	100.0	441,306	100.0	529,239	100.0

Notes:

- (1) Include share-based compensation to implementation and maintenance personnel in the amount of RMB2.0 million, RMB1.1 million, RMB4.6 million, RMB4.6 million and nil in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively, accounting for 0.8%, 0.2%, 0.4%, 1.0% and nil of our cost of sales in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively.
- (2) Others primarily consist of (i) business travel expenses and (ii) cloud services and other technical service fees. We incur cloud services and other technical service fees in relation to our customized application development services to address our users’ specific needs.

With the penetration of AI technologies, users have great demand for customized industry-specific AI applications. In this regard, we have collaborated with third-party service providers for delivery, deployment and installation of customized AI applications that we develop at users’ request. During the Track Record Period, the increase in our technology service fees were primarily attributable to the increased technology implementation costs paid to third-party service providers to develop customized industry-specific AI applications, which is in line with the increase in our revenue generated from customized AI application development services which is categorized under the “application development and other services” segment. Such increase was primarily attributable to increased demands for customized industry-specific AI applications from users in verticals we have expanded into, such as wind power, telecommunication and healthcare. Our revenue generated from customized AI application development services was RMB194.7 million, RMB293.3 million, RMB972.2 million, RMB392.7 million and RMB525.2 million in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022.

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The table below sets forth a breakdown of our cost of sales, in absolute amounts and percentages, for the years/periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(unaudited)									
	(in thousands, except for percentages)									
Sage Platform and applications										
Software licensing	5,974	2.3	4,986	1.0	19,251	1.8	3,952	0.9	12,765	2.4
SageOne	148,384	57.2	333,985	65.1	478,768	45.0	213,571	48.4	220,512	41.7
Subtotal	154,358	59.5	338,971	66.1	498,019	46.8	217,523	49.3	233,277	44.1
Application development and other services	105,079	40.5	173,532	33.9	566,905	53.2	223,783	50.7	295,962	55.9
Total	259,437	100.0	512,503	100.0	1,064,924	100.0	441,306	100.0	529,239	100.0

Gross Profit and Gross Profit Margin

Our gross profit increased significantly by 114.8% from RMB200.1 million in 2019 to RMB429.7 million in 2020, and further increased by 121.9% to RMB953.5 million in 2021, and increased by 52.5% from RMB346.9 million in the six months ended June 30, 2021 to RMB529.0 million in the six months ended June 30, 2022, in line with our growth in revenue during the Track Record Period. Our gross profit margins were stable during the Track Record Period, being 43.5%, 45.6%, 47.2%, 44.0% and 50.0% in 2019, 2020, 2021 and six months ended June 30, 2021 and 2022, respectively. Our overall gross profit margin increased from 43.5% in 2019 to 45.6% in 2020 primarily due to our optimized cost structure as a result of the advancement of our solutions, and further to 47.2% in 2021 primarily due to the increase of revenue contribution of application development and other services, which had relatively high gross profit margins, mainly as a result of recovery from the negative impact of COVID-19. Our overall gross profit margin increased from 44.0% in the six months ended June 30, 2021 to 50.0% in the six months ended June 30, 2022 primarily due to the increase of revenue contribution of software licensing, which had relatively high gross profit margins, as software licensing requires less on-site services than our other segments, and thus was less affected by the recurrence of COVID-19 in 2022.

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The table below sets forth a breakdown of our gross profit and gross profit margin for the years/periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Gross	Gross	Gross	Gross	Gross	Gross	Gross	Gross	Gross	Gross
	profit	profit	profit	profit	profit	profit	profit	profit	profit	profit
	margin	margin	margin	margin	margin	margin	margin	margin	margin	margin
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
(unaudited)										
(in thousands, except for percentages)										
Sage Platform and applications										
Software licensing	58,682	90.8	152,902	96.8	336,905	94.6	102,073	96.3	216,355	94.4
SageOne	41,056	21.7	127,056	27.6	179,630	27.3	56,571	20.9	81,805	27.1
Subtotal	99,738	39.3	279,958	45.2	516,535	50.9	158,644	42.2	298,160	56.1
Application development and other services										
	100,343	48.8	149,777	46.3	436,940	43.5	188,255	45.7	230,825	43.8
Total	200,081	43.5	429,735	45.6	953,475	47.2	346,899	44.0	528,985	50.0

Selling and Marketing Expenses

Our selling and marketing expenses are incurred primarily to increase our brand awareness and expand our user base. Our selling and marketing expenses consist primarily of (i) employee benefit expenses, which primarily represents wages and benefits of our selling and marketing staff, (ii) advertising and marketing expenses and (iii) others. The following table sets forth a breakdown of our selling and marketing expenses by nature, in absolute amounts and percentages, for the years/periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
(unaudited)										
(in thousands, except for percentages)										
Advertising and marketing expenses	10,605	7.8	99,570	40.2	167,060	36.7	45,492	19.2	74,087	43.1
Employee benefit expenses ⁽¹⁾	110,811	81.6	131,605	53.1	246,384	54.2	179,703	76.0	77,443	45.1
Others ⁽²⁾	14,401	10.6	16,654	6.7	41,557	9.1	11,305	4.8	20,186	11.8
Total	135,817	100.0	247,829	100.0	455,001	100.0	236,500	100.0	171,716	100.0

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Notes:

- (1) Include share-based compensation for selling and marketing staff in the amount of RMB36.0 million, RMB20.7 million, RMB98.3 million, RMB98.3 million and nil in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively, accounting for 26.5%, 8.4%, 21.6%, 41.6% and nil of our selling and marketing expenses in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively.
- (2) Others primarily consist of (i) technology service fees, (ii) business travel expenses, (iii) depreciation of property and equipment, (iv) amortization of intangible assets and (v) depreciation of right-of-use assets.

Our selling and marketing expenses accounted for 29.6%, 26.3%, 22.5%, 30.0% and 16.2% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively.

General and Administrative Expenses

Our general and administrative expenses consist primarily of (i) employee benefit expenses, which primarily represent wages and benefits of our administrative and other staff; (ii) professional fees and (iii) others.

The table below sets forth a breakdown of our general and administrative expenses by nature, in absolute amounts and percentages, for the years/periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(unaudited)									
	(in thousands, except for percentages)									
Employee benefit expenses ⁽¹⁾	188,444	83.9	196,907	79.9	465,013	85.8	412,271	92.8	59,430	40.7
Professional fees	11,064	4.9	16,789	6.8	34,177	6.3	11,978	2.7	66,978	45.9
Others ⁽²⁾	24,974	11.2	32,797	13.3	42,540	7.9	20,083	4.5	19,601	13.4
Total	224,482	100.0	246,493	100.0	541,730	100.0	444,332	100.0	146,009	100.0

Notes:

- (1) Include share-based compensation for administrative and other staff in the amount of RMB134.8 million, RMB126.5 million, RMB368.3 million, RMB368.3 million and nil in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively, accounting for 60.1%, 51.3%, 68.0%, 82.9% and nil of our general and administrative expenses in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively.
- (2) Others primarily consist of (i) depreciation of property and equipment, (ii) amortization of intangible assets, (iii) technology service fees, (iv) business travel expenses, and (v) depreciation of right-of-use assets.

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Our general and administrative expenses accounted for 48.9%, 26.2%, 26.8%, 56.4% and 13.8% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively.

Research and Development Expenses

Our research and development expenses are incurred primarily to develop and enhance our solutions and technology stacks. The main components of our research and development expenses include (i) technology service fees, which primarily represent outsourcing costs for certain non-core and less sophisticated research and development projects, (ii) employee benefit expenses, which primarily represent wages and benefits of our research and development staff and (iii) others. To focus on our core research and development activities, we have outsourced certain non-core and less sophisticated research and development projects to third-party research and development service providers. We are entitled to all copyrights in relation to the R&D projects, including but not limited to the technical materials, documents, source codes and applications. When deciding the types of research and development projects could be outsourced, we primarily consider two criteria, including (i) not core to our Sage Platform, such as the development of applications in our AI application store and miscellaneous product modules and the design of user interfaces, and (ii) not sophisticated but would require large amounts of manpower, such as product testing.

The following table sets forth the breakdown of our research and development expenses by nature, in absolute amount and percentages, for the years/periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	<i>(unaudited)</i>									
	<i>(in thousands, except for percentages)</i>									
Technology service fees	127,770	30.7	289,769	51.2	841,301	67.3	332,383	57.5	414,326	74.3
Employee benefit expenses ⁽¹⁾	238,571	57.3	211,076	37.3	336,487	26.9	224,590	38.8	108,859	19.5
Others ⁽²⁾	50,077	12.0	64,829	11.5	71,697	5.8	21,351	3.7	34,764	6.2
Total	416,418	100.0	565,674	100.0	1,249,485	100.0	578,324	100.0	557,949	100.0

Notes:

- (1) Include share-based compensation for research and development staff in the amount of RMB60.4 million, RMB25.4 million, RMB132.4 million, RMB132.4 million and nil in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively, accounting for 14.5%, 4.5%, 10.6%, 22.9% and nil of our research and development expenses in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively.
- (2) Others primarily consist of (i) depreciation of property and equipment, (ii) amortization of intangible assets, (iii) cloud services and other technical service fees, (iv) business travel expenses, and (v) depreciation of right-of-use assets.

FINANCIAL INFORMATION

Our research and development expenses accounted for 90.6%, 60.0%, 61.9%, 73.4% and 52.7% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively.

Credit Loss Allowance

Our credit loss allowance mainly includes the credit loss allowance on trade receivables, contract assets and other receivables. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, we had credit loss allowance of RMB1.9 million, RMB2.0 million, RMB15.2 million, RMB5.8 million and RMB0.3 million, respectively.

Other Income

Our other income consists primarily of (i) government grants, which mainly relate to contributions to technology development and investments in local business districts, and (ii) value-added tax and other tax refunds. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, we had other income of RMB10.4 million, RMB42.6 million, RMB41.6 million, RMB14.0 million and RMB28.5 million, respectively.

Other Gains, Net

Our other gains, net consist primarily of (i) fair value changes on financial assets at fair value through profit or loss, (ii) fair value changes on financial liabilities at fair value through profit or loss, and (iii) net gains on disposal/dilution of investments accounted for using the equity method. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, we had other gains, net of RMB17.2 million, RMB29.6 million, RMB93.5 million, RMB47.2 million and RMB42.1 million, respectively.

Operating Loss

As a result of the foregoing, in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, we had operating loss of RMB550.9 million, RMB560.1 million, RMB1,172.8 million, RMB856.9 million and RMB276.3 million, respectively.

Share of (Losses)/Profits of Investments Accounted for Using the Equity Method

In 2019, 2020 and the six months ended June 30, 2021 and 2022, we had share of losses of investments accounted for using the equity method of RMB4.2 million, RMB6.5 million, RMB1.9 million and RMB0.7 million, respectively. In 2021, we had share of profits of investments accounted for using the equity method of RMB3.8 million.

Finance Income

Our finance income consist primarily of interest income from bank deposits. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, we had finance income of RMB2.4 million, RMB6.0 million, RMB24.4 million, RMB6.9 million and RMB17.1 million, respectively.

FINANCIAL INFORMATION

Finance Costs

Our finance costs consist primarily of (i) interest expense on redemption liabilities and (ii) other finance costs. We incurred interest expense on redemption liabilities primarily due to certain preferred rights historically granted to our investors, which had been amortized with interests charged. See “Discussion of Selected Items from the Consolidated Statements of Financial Position – Liabilities – Redemption Liabilities.”

The following table sets forth a breakdown of our finance costs for the years/periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	<i>(unaudited)</i>									
	<i>(in thousands, except for percentages)</i>									
Interest expense on redemption liabilities	162,513	99.1	186,240	98.6	638,682	98.7	328,414	99.6	323,546	98.5
Other finance costs ⁽¹⁾	1,422	0.9	2,738	1.4	8,429	1.3	1,364	0.4	4,924	1.5
Total	163,935	100.0	188,978	100.0	647,111	100.0	329,778	100.0	328,470	100.0

Note:

- (1) Other finance costs primarily consist of (i) interest expense on lease liabilities, (ii) interest expense on borrowings, and (iii) interest expense on payable for acquisition of subsidiaries.

Income Tax (Expenses)/Credit

Our income tax (expenses)/credit consisted primarily of (i) current income tax and (ii) deferred income tax. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, we recorded income tax expenses of RMB1.5 million, RMB0.7 million, RMB10.4 million and RMB5.8 million and income tax credit of RMB4.5 million, respectively. We incurred income tax expenses even though we had losses before income tax mainly attributable to the temporary tax differences incurred as a result of fair value changes of our equity investments and financial instruments.

TAXATION

PRC

We and our subsidiaries in China are generally subject to a general PRC enterprise income tax (“EIT”) at the statutory rate of 25%. Fourth Paradigm (Beijing) Data & Technology Co., Ltd., one of our subsidiaries in the PRC, enjoyed a three-year preferential tax treatment for high and new technology enterprises at the reduced EIT rate of 15% during the Track Record Period, and we consider it can be qualified as a high and new technology enterprise for renewal of such preferential tax treatment in the foreseeable future.

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The State Taxation Administration of the People’s Republic of China announced in September 2018 that enterprises engaging in research and development activities would be entitled to claim 175% of their research and development expenses (“Super Deduction”) from January 1, 2018 to December 31, 2020, and announced in March 2021 the extension of this preferential claim percentage to December 31, 2023. As announced in March 2022, technology-based small and medium-sized enterprise would be entitled to claim 200% of their research and development expenses. We have made our best estimate for the Super Deduction to be claimed for our entities in ascertaining our assessable profits during the Track Record Period.

Hong Kong

Our subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax of which the tax rate is 8.25% for assessable profits in the first HK\$2 million and 16.5% for any assessable profits in excess of HK\$2 million. No provision for Hong Kong profits tax was made as we had no estimated assessable profit that was subject to Hong Kong profits tax during the Track Record Period.

Singapore

Entities incorporated in Singapore are subject to Singapore income tax at a rate of 17% for taxable income earned in Singapore. No provision for Singapore income tax was made as we had no estimated assessable profit that were subject to Singapore income tax during the Track Record Period.

DISCUSSION OF RESULTS OF OPERATIONS

Six Months Ended June 30, 2022 Compared with the Six Months Ended June 30, 2021

Revenue

Our revenue increased by 34.3% from RMB788.2 million in the six months ended June 30, 2021 to RMB1,058.2 million in the six months ended June 30, 2022, which was attributable to an increase by 41.3% in the revenue generated from our Sage Platform and applications from RMB376.2 million to RMB531.4 million, during the same periods and an increase by 27.8% in the revenue generated by our application development and other services from RMB412.0 million in the six months ended June 30, 2021 to RMB526.8 million in the six months ended June 30, 2022. Our revenue increases were primarily driven by the expansion in our number of users from 126 in the six months ended June 30, 2021 to 197 in the six months ended June 30, 2022, as well as increased user spending especially on software licensing.

- ***Sage Platform and applications.*** Revenue from sales of our Sage Platform and applications increased by 41.3% from RMB376.2 million in the six months ended June 30, 2021 to RMB531.4 million in the six months ended June 30, 2022 as a result of our business expansion efforts. More specifically, revenue from software licensing increased by 116.1% from RMB106.0 million in the six months ended June 30, 2021 to RMB229.1 million in the six months ended June 30, 2022, primarily driven by the growth of our user base and user spending on our software licensing.

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Revenue from SageOne increased by 11.9% from RMB270.1 million in the six months ended June 30, 2021 to RMB302.3 million in the six months ended June 30, 2022, primarily due to an expansion of our user base for SageOne as it becomes increasingly well received by users.

- ***Application development and other services.*** Revenue from application development and other services increased by 27.8% from RMB412.0 million in the six months ended June 30, 2021 to RMB526.8 million in the six months ended June 30, 2022. We believe that these increases were mainly due to the growth of our user base.

Cost of Sales

Our cost of sales increased by 19.9% from RMB441.3 million in the six months ended June 30, 2021 to RMB529.2 million in the six months ended June 30, 2022. The increase in cost of sales was primarily due to the increase in technology service fees by 36.4% from RMB205.7 million in the six months ended June 30, 2021 to RMB280.6 million in the six months ended June 30, 2022, which was due to our increased use of third-party deployment service providers in line with the increase of our revenue generated from customized AI application development services.

For Sage Platform and applications, our cost of sales for software licensing increased significantly from RMB4.0 million in the six months ended June 30, 2021 to RMB12.8 million in the six months ended June 30, 2022 in line with the revenue growth, and our cost of sales for SageOne increased by 3.2% from RMB213.6 million in the six months ended June 30, 2021 to RMB220.5 million in the six months ended June 30, 2022. For application development and other services, our cost of sales for AI applications customization increased by 32.3% from RMB223.8 million in the six months ended June 30, 2021 to RMB296.0 million in the six months ended June 30, 2022, in line with the increase of our revenue generated from customized AI application development services.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our overall gross profit increased by 52.5% from RMB346.9 million in the six months ended June 30, 2021 to RMB529.0 million in the six months ended June 30, 2022, in line with our growth in revenue during the same periods. Our gross profit margin increased from 44.0% in the six months ended June 30, 2021 to 50.0% in the six months ended June 30, 2022, primarily due to the increase of revenue contribution of software licensing, which had relatively high gross profit margins. For Sage Platform and applications, our gross profit margin increased from 42.2% in the six months ended June 30, 2021 to 56.1% in the six months ended June 30, 2022, primarily due to the increase of revenue contribution of software licensing, which had relatively high gross profit margins, as software licensing requires less on-site services than our other segments, and thus was less affected by the recurrence of COVID-19 in 2022. Our gross profit margin for software licensing decreased slightly from 96.3% in the six months ended June 30, 2021 to 94.4% in the six months ended June 30, 2022. Our gross profit margin for SageOne increased from 20.9% in the six months

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ended June 30, 2021 to 27.1% in the six months ended June 30, 2022, primarily because we improved the cost-effectiveness of SageOne as a result of the enhanced computing efficiency as we continue to optimize our algorithms and to enhance the compatibility of software and hardware. For application development and other services, our gross profit margin slightly decreased from 45.7% in the six months ended June 30, 2021 to 43.8% in the six months ended June 30, 2022.

Selling and Marketing Expenses

Our selling and marketing expenses decreased by 27.4% from RMB236.5 million in the six months ended June 30, 2021 to RMB171.7 million in the six months ended June 30, 2022. The decrease was attributable to a decrease in employee benefit expenses by 56.9% from RMB179.7 million in the six months ended June 30, 2021 to RMB77.4 million in the six months ended June 30, 2022, mainly because we did not incur share-based compensation expenses in the six months ended June 30, 2022, partially offset by an increase in advertising and marketing expenses by 62.9% from RMB45.5 million in the six months ended June 30, 2021 to RMB74.1 million in the six months ended June 30, 2022, primarily driven by our efforts to enhance our brand awareness and our continued investments in engaging with existing customers and attracting new customers.

General and Administrative Expenses

Our general and administrative expenses decreased by 67.1% from RMB444.3 million in the six months ended June 30, 2021 to RMB146.0 million in the six months ended June 30, 2022. The decrease was primarily attributable to a significant decrease in employee benefit expenses from RMB412.3 million in the six months ended June 30, 2021 to RMB59.4 million in the six months ended June 30, 2022, mainly because we we did not incur share-based compensation expenses in the six months ended June 30, 2022.

Research and Development Expenses

Our research and development expenses decreased by 3.5% from RMB578.3 million in the six months ended June 30, 2021 to RMB557.9 million in the six months ended June 30, 2022. More specifically, the decrease was attributable a decrease in employee benefit expenses from RMB224.6 million in the six months ended June 30, 2021 to RMB108.9 million in the six months ended June 30, 2022, mainly because we we did not incur share-based compensation expenses in the six months ended June 30, 2022, partially offset by an increase in technology service fees from RMB332.4 million in the six months ended June 30, 2021 to RMB414.3 million in the six months ended June 30, 2022 as a result of our increased use of third party technology services for development of certain applications in our AI application store, design of user interfaces and product testing projects, driven by our enhanced research and development efforts and the expansion of our business.

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Credit Loss Allowance

Our credit loss allowance decreased by 95.5% from RMB5.8 million in the six months ended June 30, 2021 to RMB0.3 million in the six months ended June 30, 2022. Primarily due to our effective management of trade receivables, our trade receivables remained relatively stable from December 31, 2021 to June 30, 2022, being RMB778.3 million and RMB803.3 million, respectively, and thus we recorded less credit loss allowance for the six months ended June 30, 2022 than the corresponding period in 2021.

Other Income

Our other income increased by 104.3% from RMB14.0 million in the six months ended June 30, 2021 to RMB28.5 million in the six months ended June 30, 2022, primarily due to the increase in value-added tax and other tax refunds from RMB12.3 million to RMB24.3 million, primarily as a result of our revenue growth.

Other Gains, Net

Our other gains, net kept stable, being RMB47.2 million and RMB42.1 million in the six months ended June 30, 2021 and 2022.

Operating Loss

As a result of the foregoing, our operating loss decreased by 67.8% from RMB856.9 million in the six months ended June 30, 2021 to RMB276.3 million in the six months ended June 30, 2022. Overall, the decrease of our operating loss was due to the decrease of our share-based compensation expenses.

Share of Losses of Investments Accounted for Using the Equity Method

We recorded RMB1.9 million and RMB0.7 million in share of losses for investments accounted for using the equity method in the six months ended June 30, 2021 and 2022.

Finance Income

Our finance income increased by 148.2% from RMB6.9 million in the six months ended June 30, 2021 to RMB17.1 million in the six months ended June 30, 2022, primarily due to the increase of our interest income from bank deposits.

Finance Costs

Our finance costs kept stable, being RMB329.8 million in the six months ended June 30, 2021 and RMB328.5 million in the six months ended June 30, 2022.

Income Tax (Expenses)/Credit

We incurred income tax expenses of RMB5.8 million in the six months ended June 30, 2021 and income tax credit of RMB4.5 million in the six months ended June 30, 2022. The change in the tax expenses was primarily due to impacts of deferred taxes in connection with our equity investments and financial instruments.

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Year Ended December 31, 2021 Compared with the Year Ended December 31, 2020

Revenue

Our revenue increased by 114.2% from RMB942.2 million in 2020 to RMB2,018.4 million in 2021, which was attributable to an increase by 210.5% in the revenue generated by our application development and other services from RMB323.3 million in 2020 to RMB1,003.8 million in 2021 and an increase by 63.9% in the revenue generated from our Sage Platform and applications from RMB618.9 million to RMB1,014.6 million, during the same periods. Our revenue increases were primarily driven by the expansion in our number of users from 156 in 2020 to 245 in 2021 and the increased spending of our users, especially the spending of our lighthouse users, evidenced by the increase of our average revenue per lighthouse user from RMB12.3 million in 2020 to RMB13.7 million in 2021.

- ***Sage Platform and applications.*** Revenue from sales of our Sage Platform and applications increased by 63.9% from RMB618.9 million in 2020 to RMB1,014.6 million in 2021 as a result of our business expansion efforts. More specifically, revenue from software licensing increased significantly from RMB157.9 million in 2020 to RMB356.2 million in 2021, primarily driven by the expansion in our number of users and the increased spending of our users. Revenue from SageOne increased by 42.8% from RMB461.0 million in 2020 to RMB658.4 million in 2021, primarily due to an expansion of our user base for SageOne as it becomes increasingly well received by users.
- ***Application development and other services.*** Revenue from application development and other services increased by 210.5% from RMB323.3 million in 2020 to RMB1,003.8 million in 2021. We believe that these increases were mainly due to the increase of our use cases and users that need customized AI applications on Sage Platform. Additionally, our revenue generated from services were negatively affected by the COVID-19 pandemic in 2020, as lockdown and travel restrictions in response to the pandemic temporarily prevented us from engaging with end users and partners through in-person meetings and providing them with application development and other services.

Cost of Sales

Our cost of sales increased by 107.8% from RMB512.5 million in 2020 to RMB1,064.9 million in 2021. The increase in cost of sales was primarily due to (i) the increase in technology service fees by 227.8% from RMB149.8 million in 2020 to RMB491.1 million in 2021, which was due to our increased use of third-party deployment service providers primarily driven by the increase in our revenue generated from customized AI application development services, and (ii) the increase in cost of finished goods sold by 34.1% from RMB323.6 million in 2020 to RMB434.0 million in 2021, which was in line with our increased sales of SageOne.

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For Sage Platform and applications, our cost of sales for software licensing increased by 286.1% from RMB5.0 million in 2020 to RMB19.3 million in 2021, and our cost of sales for SageOne increased by 43.4% from RMB334.0 million in 2020 to RMB478.8 million in 2021. For application development and other services, our cost of sales for AI applications customization increased by 226.7% from RMB173.5 million in 2020 to RMB566.9 million in 2021. These increases were due to our revenue growth in the respective business segments.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our overall gross profit increased by 121.9% from RMB429.7 million in 2020 to RMB953.5 million in 2021, in line with our growth in revenue during the same periods. Our gross profit margin increased from 45.6% in 2020 to 47.2% in 2021, primarily due to the increase of revenue contribution of application development and other services, which had relatively high gross profit margins, mainly as a result of recovery from the negative impact of COVID-19. For Sage Platform and applications, our gross profit margin increased from 45.2% in 2020 to 50.9% in 2021, primarily due to the increase of revenue contribution of software licensing, which had higher gross profit margins than SageOne. Our gross profit margin for software licensing decreased slightly from 96.8% in 2020 to 94.6% in 2021. Our gross profit margin for SageOne remained stable, being 27.6% and 27.3%, in 2020 and 2021, respectively. For application development and other services, our gross profit margin slightly decreased from 46.3% in 2020 to 43.5% in 2021, primarily because we incurred additional costs to cope with the increased customization demands from new industries we entered.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 83.6% from RMB247.8 million in 2020 to RMB455.0 million in 2021, which was primarily driven by our efforts to enhance our brand awareness and our continued investments in engaging with existing customers and attracting new customers. More specifically, the increase was primarily attributable to (i) an increase in employee benefit expenses by 87.2% from RMB131.6 million in 2020 to RMB246.4 million in 2021, mainly as a result of the increased compensation level, especially the share-based compensation of our selling and marketing staff, and (ii) an increase in advertising and marketing expenses by 67.8% from RMB99.6 million in 2020 to RMB167.1 million in 2021, including increased advertisement placements, driven by our enhanced sales efforts to penetrate new verticals.

General and Administrative Expenses

Our general and administrative expenses increased by 119.8% from RMB246.5 million in 2020 to RMB541.7 million in 2021. More specifically, the increase was primarily attributable to a significant increase in employee benefit expenses from RMB196.9 million in 2020 to RMB465.0 million in 2021, mainly as a result of the share-based compensation of our general and administrative staff recognized in 2021.

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Research and Development Expenses

Our research and development expenses increased by 120.9% from RMB565.7 million in 2020 to RMB1,249.5 million in 2021, as we continued to increase our research and development efforts to enhance our fundamental capabilities in technology and to meet the needs of our business growth. More specifically, the increase was primarily attributable to (i) a significant increase in technology service fees from RMB289.8 million in 2020 to RMB841.3 million in 2021 as a result of our increased use of third party technology services for development of certain applications in our AI application store, design of user interfaces and product testing projects, driven by our enhanced research and development efforts and the expansion of our business, and (ii) a significant increase in employee benefit expenses from RMB211.1 million in 2020 to RMB336.5 million in 2021, which was mainly due to the increased headcounts and increased compensation level, especially the share-based compensation, of our research and development staff. The increase of our research and development expenses in 2021 was primarily driven by our investment in R&D activities to maintain our industry leadership and accommodate users’ demand in light of the penetration of AI technologies. We incurred expenses to commercialize products and solutions using our core technologies: For example, we launched our enterprise-level AI app store in June 2021, which contains a cluster of applications on our AI operating system using our algorithms and standards. To accommodate users’ increasing demand for AI solutions, we will continue to incur expenses in the design, testing and development of modules of our Sage Platform and applications. We also continued to enhance our fundamental research and to explore new areas which may lead to the next generation of AI technologies. See “Business – Research and Development.”

Credit Loss Allowance

Our credit loss allowance increased significantly by 663.4% from RMB2.0 million in 2020 to RMB15.2 million in 2021. The increase was mainly attributable to our significantly increased trade receivables due to our revenue increases.

Other Income

Our other income remained stable in 2020 and 2021, being RMB42.6 million and RMB41.6 million, respectively.

Other Gains, Net

Our other gains, net increased by 215.9% from RMB29.6 million in 2020 to RMB93.5 million in 2021. The increase was mainly attributable to an increase in our fair value changes on financial assets at fair value through profit or loss through wealth management products from RMB12.5 million in 2020 to RMB85.6 million in 2021, primarily due to our increased purchase of wealth management products using the Series D financing [REDACTED] we received in 2021 and the increased fair value of such products.

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Operating Loss

As a result of the foregoing, our operating loss increased by 109.4% from RMB560.1 million in 2020 to RMB1,172.8 million in 2021. Overall, the increase of our operating loss was due to the increase in share-based compensation in 2021 and our continuous investment in research and development.

Share of (Losses)/Profits of Investments Accounted for Using the Equity Method

We recorded RMB6.5 million in share of losses for investments accounted for using the equity method in 2020 and RMB3.8 million in share of profits for investments accounted for using the equity method in 2021.

Finance Income

Our finance income increased by 304.4% from RMB6.0 million in 2020 to RMB24.4 million in 2021, primarily due to the increase of our interest income from bank deposits.

Finance Costs

Our finance costs increased by 242.4% from RMB189.0 million in 2020 to RMB647.1 million in 2021, primarily due to a significant increase of interest expense on redemption liabilities by 242.9% from RMB186.2 million in 2020 to RMB638.7 million in 2021, which was primarily in connection with our equity financing activities.

Income Tax Expenses

We incurred income tax expenses of RMB0.7 million in 2020 and RMB10.4 million in 2021. The increase of the tax expenses was primarily as a result of temporary tax differences incurred due to fair value changes of our equity investments and financial instruments.

Year Ended December 31, 2020 Compared with the Year Ended December 31, 2019

Revenue

Our revenue increased by 105.0% from RMB459.5 million in 2019 to RMB942.2 million in 2020, which was attributable to an increase by 143.6% in the revenue generated by our Sage Platform and applications from RMB254.1 million in 2019 to RMB618.9 million in 2020 and, to a lesser extent, an increase by 57.4% in the revenue generated from our application development and other services from RMB205.4 million to RMB323.3 million, during the same period. Our revenue increases were primarily driven by the expansion in our number of users from 79 in 2019 to 156 in 2020 and the increased spending of our users, especially the spending of our lighthouse users, evidenced by the increase of our average revenue per lighthouse user from RMB8.3 million in the 2019 to RMB12.3 million in 2020.

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- ***Sage Platform and applications.*** Revenue from sales of our Sage Platform and applications increased by 143.6% from RMB254.1 million in 2019 to RMB618.9 million in 2020, which was mainly due to our business expansion efforts. More specifically, revenue from software licensing increased by 144.2% from RMB64.7 million in 2019 to RMB157.9 million in 2020, primarily driven by the expansion in our number of users and the increased spending of our users. Revenue from SageOne increased by 143.4% from RMB189.4 million in 2019 to RMB461.0 million in 2020, primarily due to an expansion of our user base for SageOne as it becomes increasingly well received by users.
- ***Application development and other services.*** Revenue from application development and other services increased by 57.4% from RMB205.4 million in 2019 to RMB323.3 million in 2020. We believe that these increases were mainly due to the increase of our use cases and thus the users that need customized AI applications on Sage Platform.

Cost of Sales

Our cost of sales increased by 97.5% from RMB259.4 million in 2019 to RMB512.5 million in 2020. The increase in cost of sales was primarily due to (i) the increase in cost of finished goods sold by 120.0% from RMB147.1 million in 2019 to RMB323.6 million in 2020, which was in line with our increased sales of SageOne, and (ii) the increase in technology service fees by 90.5% from RMB78.6 million in 2019 to RMB149.8 million in 2020, which was due to our increased use of third-party deployment service providers.

For Sage Platform and applications, our cost of sales for software licensing slightly decreased by 16.5% from RMB6.0 million in the 2019 to RMB5.0 million in 2020, primarily because the costs of software deployment decreased as our solutions mature. Our cost of sales for SageOne increased by 125.1% from RMB148.4 million in 2019 to RMB334.0 million in 2020. For application development and other services, our cost of sales for AI applications customization increased by 65.1% from RMB105.1 million in 2019 to RMB173.5 million in 2020. These increases were due to our revenue growth in the respective business segments.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our overall gross profit increased by 114.8% from RMB200.1 million in 2019 to RMB429.7 million in 2020, in line with our growth in revenue during the same periods. Our gross profit margin increased from 43.5% in 2019 to 45.6% in 2020. For Sage Platform and applications, our gross profit margin increased from 39.3% in 2019 to 45.2% in 2020, primarily attributable to our optimized cost structure as a result of the advancement of our solutions. Specifically, our gross profit margin for software licensing increased from 90.8% in 2019 to 96.8% in 2020, primarily because in August 2020, we launched Sage AIOS, an AI operating system featuring user-friendly interface, standardized data processing, automated resource management and allocation and fully compatible middleware that are comparable to personal computer operating system, and as a result of such improved

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scalability, we were able to reduce the implementation costs for our software. Our gross profit margin for SageOne increased from 21.7% in 2019 to 27.6% in 2020, primarily because we improved the cost-effectiveness of SageOne as a result of the enhanced computing efficiency as we continue to optimize our algorithms and to enhance the compatibility of software and hardware. For application development and other services, our gross profit margin decreased slightly from 48.8% in 2019 to 46.3% in 2020, respectively primarily as a result of the negative impact of COVID-19 in the first half of 2020, when on-site meetings, deployment and technical support had to be delayed or canceled.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 82.5% from RMB135.8 million in 2019 to RMB247.8 million in 2020, which was primarily driven by our efforts to enhance our brand awareness and our continued investments in engaging with existing customers and attracting new customers. More specifically, the increase was primarily attributable to (i) a significant increase by 838.9% in advertising and marketing expenses from RMB10.6 million in 2019 to RMB99.6 million in 2020, mainly as a result of our enhanced sales and marketing efforts in 2020, such as increased advertisement placements, and organization of various offline marketing events such as product release conferences, and (ii) an increase by 18.8% in employee benefit expenses from RMB110.8 million in 2019 to RMB131.6 million in 2020, primarily due to increase in sales and marketing staff headcount and increase in compensation levels for our sales and marketing staff.

General and Administrative Expenses

Our general and administrative expenses were relatively stable in 2019 and 2020, being RMB224.5 million and RMB246.5 million, respectively.

Research and Development Expenses

Our research and development expenses increased by 35.8% from RMB416.4 million in 2019 to RMB565.7 million in 2020, as we continued to increase our research and development efforts to enhance our fundamental capabilities in technology and to meet the needs of our business growth. More specifically, the increase was primarily attributable to (i) an increase in technology service fees by 126.8% from RMB127.8 million in 2019 to RMB289.8 million in 2020 as a result of our enhanced research and development efforts, and (ii) an increase in cloud service and other technical service fees by 30.6% from RMB26.5 million in 2019 to RMB34.6 million in 2020, which was mainly due to our increased spending on cloud services to facilitate our research and development activities.

Credit Loss Allowance

Our credit loss allowance remained relatively stable in 2019 and 2020, being RMB1.9 million and RMB2.0 million, respectively.

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Other Income

Our other net income increased significantly by 309.8% from RMB10.4 million in 2019 to RMB42.6 million in 2020. The increase was mainly attributable to (i) an increase of government grants from RMB5.1 million in 2019 to RMB18.5 million in 2020 and (ii) an increase of value-added tax and other tax refunds from RMB5.3 million in 2019 to RMB24.1 million in 2020.

Other Gains, Net

Our other gains, net increased by 72.3% from RMB17.2 million in 2019 to RMB29.6 million in 2020. The increase was mainly attributable to the increase in net gains on disposal/dilution of investments accounted for using the equity method from nil in 2019 to RMB13.8 million in 2020.

Operating Loss

As a result of the foregoing, our loss from operations increased by 1.7% from RMB550.9 million in 2019 to RMB560.1 million in 2020.

Share of (Losses)/Profits of Investments Accounted for Using the Equity Method

Our share of losses of investments accounted for using the equity method increased from RMB4.2 million in 2019 to RMB6.5 million in 2020, primarily due to our investee companies' loss.

Finance Income

Our finance income increased by 153.4% from RMB2.4 million in 2019 to RMB6.0 million in 2020, primarily due to the increase of our interest income from bank deposits.

Finance Costs

Our finance costs increased by 15.3% from RMB163.9 million in 2019 to RMB189.0 million in 2020, primarily due to a significant increase of interest expense on redemption liabilities by 14.6% from RMB162.5 million in 2019 to RMB186.2 million in 2020. We incurred such interest expense primarily due to certain preferred rights historically granted to our investors, which had been amortized with interests charged. The interest expenses from redemption liabilities increased from 2019 to 2020 primarily in connection with our equity financing activities.

Income Tax Expenses

Our income tax expenses were RMB1.5 million in 2019 and RMB0.7 million in 2020. We incurred income tax expenses even though we had losses before income tax as a result of temporary tax differences incurred as a result of fair value changes of our equity investments and financial instruments.

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DISCUSSION OF SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The table below sets forth selected information from our consolidated statements of financial position as of the dates indicated, which has been extracted from the Accountant’s Report included in Appendix I to this Document:

	As of December 31,			As of
	2019	2020	2021	June 30,
				2022
	<i>(RMB in thousands)</i>			
ASSETS				
Non-current asset				
Right-of-use assets	66,451	37,814	34,074	21,530
Property and equipment	32,952	47,658	49,807	47,617
Intangible assets	3,459	19,916	395,389	475,571
Investments accounted for using the equity method	68,357	86,638	115,173	117,104
Financial assets at fair value through profit or loss	7,754	20,936	246,128	254,027
Contract assets	256	705	1,195	13,178
Long-term bank deposits	–	–	510,203	620,447
Other non-current assets	–	–	1,000	–
Total non-current assets	<u>179,229</u>	<u>213,667</u>	<u>1,352,969</u>	<u>1,549,474</u>
Current assets				
Inventories	21,009	28,186	184,499	234,965
Contract assets	1,700	1,193	4,434	20,328
Trade receivables	179,210	262,699	778,321	803,321
Prepayments and other receivables	219,205	169,980	272,002	288,047
Financial assets at fair value through profit or loss	71,900	174,408	2,535,763	1,851,429
Short-term bank deposits	–	95,602	20,000	20,000
Restricted cash	336	18,201	8,010	7,213
Cash and cash equivalents	<u>703,786</u>	<u>1,052,073</u>	<u>1,292,686</u>	<u>1,420,922</u>
Total current assets	<u>1,197,146</u>	<u>1,802,342</u>	<u>5,095,715</u>	<u>4,646,225</u>
Total assets	<u><u>1,376,375</u></u>	<u><u>2,016,009</u></u>	<u><u>6,448,684</u></u>	<u><u>6,195,699</u></u>

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	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>(RMB in thousands)</i>			
EQUITY AND LIABILITIES				
Equity attributable to owners of the Company				
Share capital/paid-in capital	8,057	8,851	437,706	437,706
Treasury stock	(1,313,614)	(1,746,224)	(4,898,094)	(4,898,094)
Reserves	1,976,894	2,628,252	6,643,834	6,644,322
Accumulated losses	(1,319,252)	(2,068,902)	(2,534,467)	(3,101,210)
Non-controlling interests	<u>(4,618)</u>	<u>(4,976)</u>	<u>103,008</u>	<u>96,067</u>
Deficit on total equity	<u>(652,533)</u>	<u>(1,182,999)</u>	<u>(248,013)</u>	<u>(821,209)</u>
Non-current liabilities				
Lease liabilities	38,835	17,590	11,000	7,887
Deferred income tax liabilities	268	995	25,027	22,054
Borrowings	—	—	15,000	15,000
Redemption liabilities	1,528,181	2,147,031	5,822,196	6,145,742
Financial liabilities at fair value through profit or loss	18,135	—	—	—
Other non-current liabilities	<u>279,432</u>	<u>772,061</u>	<u>66,541</u>	<u>51,239</u>
Total non-current liabilities	<u>1,864,851</u>	<u>2,937,677</u>	<u>5,939,764</u>	<u>6,241,922</u>
Current liabilities				
Trade payables	15,231	84,968	321,357	291,738
Other payables and accruals	97,176	73,366	183,863	163,617
Contract liabilities	20,781	77,099	173,881	211,651
Lease liabilities	26,731	21,185	24,364	15,987
Income tax liabilities	—	—	4,926	2,331
Borrowings	—	—	3,752	37,833
Other current liabilities	<u>4,138</u>	<u>4,713</u>	<u>44,790</u>	<u>51,829</u>
Total current liabilities	<u>164,057</u>	<u>261,331</u>	<u>756,933</u>	<u>774,986</u>
Total liabilities	<u>2,028,908</u>	<u>3,199,008</u>	<u>6,696,697</u>	<u>7,016,908</u>
Total equity and liabilities	<u><u>1,376,375</u></u>	<u><u>2,016,009</u></u>	<u><u>6,448,684</u></u>	<u><u>6,195,699</u></u>

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Net Current Assets and Liabilities

The following table sets forth our current assets and liabilities as of the dates indicated:

	As of December 31,			As of June 30,	As of July 31,
	2019	2020	2021	2022	2022
	<i>(RMB in thousands)</i>				
Current assets					
Inventories	21,009	28,186	184,499	234,965	259,991
Contract assets	1,700	1,193	4,434	20,328	26,740
Trade receivables	179,210	262,699	778,321	803,321	735,547
Prepayments and other receivables	219,205	169,980	272,002	288,047	306,518
Financial assets at fair value through profit or loss	71,900	174,408	2,535,763	1,851,429	1,855,979
Short-term bank deposits	–	95,602	20,000	20,000	10,000
Restricted cash	336	18,201	8,010	7,213	7,123
Cash and cash equivalents	703,786	1,052,073	1,292,686	1,420,922	1,414,489
Total current assets	<u>1,197,146</u>	<u>1,802,342</u>	<u>5,095,715</u>	<u>4,646,225</u>	<u>4,616,387</u>
Current liabilities					
Trade payables	15,231	84,968	321,357	291,738	295,936
Other payables and accruals	97,176	73,366	183,863	163,617	159,186
Contract liabilities	20,781	77,099	173,881	211,651	234,198
Lease liabilities	26,731	21,185	24,364	15,987	12,600
Income tax liabilities	–	–	4,926	2,331	4,331
Borrowings	–	–	3,752	37,833	37,833
Other current liabilities	4,138	4,713	44,790	51,829	46,664
Total current liabilities	<u>164,057</u>	<u>261,331</u>	<u>756,933</u>	<u>774,986</u>	<u>790,748</u>
Net current assets	<u>1,033,089</u>	<u>1,541,011</u>	<u>4,338,782</u>	<u>3,871,239</u>	<u>3,825,639</u>

We had net current assets of RMB1,033.1 million, RMB1,541.0 million, RMB4,338.8 million, RMB3,871.2 million and RMB3,825.6 million, respectively, as of December 31, 2019, 2020, 2021, June 30, 2022 and July 31, 2022.

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Our net current assets increased from RMB1,033.1 million as of December 31, 2019 to RMB1,541.0 million as of December 31, 2020, primarily due to (i) an increase in cash and cash equivalents from RMB703.8 million as of December 31, 2019 to RMB1,052.1 million as of December 31, 2020 as a result of our private financings in 2020, (ii) an increase in financial assets at fair value through profit or loss from RMB71.9 million as of December 31, 2019 to RMB174.4 million as of December 31, 2020, mainly due to our purchase of wealth management products in 2020, and (iii) an increase in trade receivables from RMB179.2 million as of December 31, 2019 to RMB262.7 million as of December 31, 2020, mainly due to our business growth; and partially offset by (i) an increase in trade payables from RMB15.2 million as of December 31, 2019 to RMB85.0 million as of December 31, 2020 as a result of our business growth and increased bargaining power over suppliers and (ii) an increase in contract liabilities from RMB20.8 million as of December 31, 2019 to RMB77.1 million as of December 31, 2020, which was primarily due to the increase in the number of contracts with our customers for which we have received advance payments but have yet to deliver our solutions and services.

Our net current assets increased from RMB1,541.0 million as of December 31, 2020 to RMB4,338.8 million as of December 31, 2021, primarily due to (i) an increase in financial assets at fair value through profit or loss from RMB174.4 million as of December 31, 2020 to RMB2,535.8 million as of December 31, 2021 primarily as a result of our investments in wealth management products due to our equity financing activities in 2021 and (ii) an increase in trade receivables from RMB262.7 million to RMB778.3 million in line with our revenue growth.

Our net current assets decreased from RMB4,338.8 million as of December 31, 2021 to RMB3,871.2 million as of June 30, 2022, primarily attributable to a decrease in the combination of our cash and cash equivalents and the current portion of financial assets at fair value through profit or loss from RMB3,828.4 million to RMB3,272.4 million, mainly as a result of our utilization of cash and financial assets in operating expenditures.

Our net current assets remained relatively stable from RMB3,871.2 million as of June 30, 2022 to RMB3,825.6 million as of July 31, 2022.

Assets

Right-of-Use Assets

Our right-of-use assets were RMB66.5 million, RMB37.8 million, RMB34.1 million and RMB21.5 million, respectively, as of December 31, 2019, 2020, 2021 and June 30, 2022. Our right-of-use assets relate primarily to our leases of our office premises.

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Property and Equipment

Our property and equipment consist primarily of computer equipment, furniture, office equipment and leasehold improvements, which relate mainly to our leased office premises. Our property and equipment increased from RMB33.0 million as of December 31, 2019 to RMB47.7 million as of December 31, 2020 and further to RMB49.8 million as of December 31, 2021, which was primarily due to expansion and leasehold improvements of office spaces and acquisition of server and electric equipment to meet the needs of the increased number of our employees and our business growth during these periods. Our property and equipment decreased slightly from RMB49.8 million as of December 31, 2021 to RMB47.6 million as of June 30, 2022.

Intangible Assets

Our intangible assets, which primarily consisting of software applications that we purchased for administrative and research and development purposes, were RMB3.5 million, RMB19.9 million, RMB395.4 million and RMB475.6 million, respectively, as of December 31, 2019, 2020, 2021 and June 30, 2022. From December 31, 2019 to December 31, 2020, our intangible assets, which comprised of software and copyright, increased as a result of our increased needs for digital management and our increased investment in research and development to enhance our technology and solutions. From December 31, 2020 to December 31, 2021, our intangible assets increased significantly, mainly as a result of our acquisitions of Ideal Technology and Guangzhou Jianxin. See “History, Development and Corporate Structure – Major Acquisitions and Investments.” More specifically, we recorded RMB259.7 million of goodwill, RMB20.5 million of software and copyright, RMB37.1 million of technology, RMB71.7 million of customer relationship and RMB6.4 million of brand name as at December 31, 2021, as a result of these business acquisitions. Guangzhou Jianxin and its subsidiaries are primarily engaged in provision of intelligent platform and solutions in energy and power industry. Ideal technology is mainly engaged in provision of digital operation and maintenance platform and solutions. Goodwill is attributable to the acquired market share and economies of scale expected to be derived from combining with the operations of the Group following these acquisitions. From December 31, 2021 to June 30, 2022, our intangible assets increased, mainly as a result of our acquisition of EpicHust. See Note 34(c) to the Accountant’s Report in Appendix I to this Document.

Investments Accounted for Using the Equity Method

Investments accounted for using the equity method are related to our investments in certain associated companies, which amounted to RMB68.4 million, RMB86.6 million, RMB115.2 million and RMB117.1 million, respectively, as of December 31, 2019, 2020, 2021 and June 30, 2022. The change in our interest in associates throughout the Track Record Period relates primarily to the operational and financial performance of our associates and our additional investments in certain associated company.

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The following table sets forth the breakdown of our investments accounted for using the equity method.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Investments accounted for using the equity method				
– Associates	48,233	69,898	101,092	103,844
– Joint ventures	20,124	16,740	14,081	13,260
	<u>68,357</u>	<u>86,638</u>	<u>115,173</u>	<u>117,104</u>

None of associates or joint ventures are individually material to the Group during the Track Record Period.

Financial Assets at Fair Value through Profit or Loss

During the Track Record Period, our financial assets at fair value through profit or loss primarily consist of wealth management products, unlisted equity securities, preferred shares investments and fund investments. The following table sets forth our financial assets at fair value through profit or loss as of the dates indicated:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Non-current				
Unlisted equity securities	–	9,804	19,065	21,480
Preferred shares investments	–	–	17,000	23,992
Fund investments	7,754	11,132	210,063	208,555
Current				
Wealth management products	71,900	174,408	2,535,763	1,851,429

Our unlisted equity securities include our long-term investments in unlisted companies, where our equity ownership is not material, we do not participate in such companies' day-to-day operations. Our unlisted equity securities increased from nil as of December 31, 2019 to RMB9.8 million as of December 31, 2020 and RMB19.1 million as of December 31, 2021, respectively, and further to RMB21.5 million as of June 30, 2022, reflecting our increasing investments in businesses that are complementary to ours. Our preferred shares investments include investments in ordinary shares with preferential rights. Our fund investments include our investment in funds that focus on equity investment in unlisted companies, and we are limited partners of these funds. Our fund investments increased slightly from RMB7.75 million in 2019 to RMB11.1 million in 2020 primarily due to our increased investments in the funds, and further increased to RMB210.1 million primarily because we

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invested in Beijing Paradigm Artificial Intelligence Equity Investment Fund (Limited Partnership) (“Paradigm Fund”) in 2021. Our fund investments slightly decreased from RMB210.1 million as of December 31, 2021 to RMB208.6 million as of June 30, 2022. For details, see Note 19(iii) to the Accountant’s Report in Appendix I to this Document. We have been in the past, and expect to continue, prudently evaluating and considering a wide array of potential investments in emerging businesses that are complementary to our business to implement our long-term growth strategy, develop our solutions and expand and penetrate the industry verticals we cover. We select our investment target companies based on the industry in which the target operates, the target’s strength of technology and solutions, the target’s business and financial performance and the synergy between the target and us. During the Track Record Period, we made minority equity investments in certain private companies, which are measured as financial assets at fair value through profit or loss. We undertake prudent evaluation and approval process in making investment decisions. Our investment managers conduct preliminary due diligence and evaluation on potential investment opportunities presented, and submit the targets that meet our selection criteria for pre-approval by our chief financial officer. Upon our chief financial officer’s pre-approval, we organize a project working group and engage third-party professionals to conduct comprehensive due diligence, negotiate with the target company and evaluate risks associated with the investment. Investment agreements will be subject to review and approval by our investment managers and an ad hoc investment committee before execution. The payment process is also subject to the approval matrix of our finance management system. After making an investment, we typically conduct on-site visits at our investee companies on a semi-annual basis and report their operational and financial results to our chief finance officer regularly, continuing to monitor their business performance.

During the Track Record Period, we predominantly purchased relatively low-risk wealth-management products which were deposited in or managed by state-owned banks or other high-quality reputable banks in China. Our wealth management products are primarily denominated in RMB and have expected rates of return ranging from 2.20% to 3.85%, 1.63% to 6.25%, 2.20% to 4.74%, 2.60% to 4.30% and 2.20% to 4.00% per annum for the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. Our wealth management products increased from RMB71.9 million as of December 31, 2019 to RMB174.4 million as of December 31, 2020 primarily due to the increase of our structured deposits and increased purchase of wealth management products for cash management purpose, and further to RMB2,535.8 million as of December 31, 2021, primarily due to our increased purchase of wealth management products and the increased fair value of our purchased wealth management products. Our wealth management products decreased from RMB2,535.8 million as of December 31, 2021 to RMB1,851.4 million as of June 30, 2022, primarily because we decreased our purchase of wealth management products to increase our cash reserves in anticipation of the cash needs for the high level of operating activities in the second half of 2022. The principal and returns on all these wealth management products are not guaranteed. As of December 31, 2019, risk profile of 88.8% of the wealth management products we purchased are relatively low, and the rest are medium. As of December 31, 2020, 2021 and June 30, 2022, risk profile of all of the wealth management products we purchased are relatively low. Our treasury management department is responsible for managing our investments in wealth management products. More specifically, our treasury manager solicits quotes of wealth management products from banks and formulates an investment plan for cash allocation based on our treasury management policy. The treasury manager then executes such plan upon approval by the responsible persons of our treasury

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management department and finance department, and our chief financial officer. Our investment strategy related to wealth management products aims to minimize the financial risks by reasonably and conservatively matching the maturities of the portfolio to anticipated operating cash needs, and to generate investment returns for the benefit of our shareholders. We primarily invest in wealth management products with relatively low risks and the proposed investment must not interfere with our daily operation and business prospects. We make investment decisions related to wealth management products on a case-by-case basis after thoroughly considering a number of factors, including but not limited to macroeconomic environment, general market conditions and the expected profit or potential loss of the investment. As of June 30, 2022, our top five investments were: (i) RMB500.0 million open-end wealth management product issued by a reputable bank, with no maturity date; (ii) RMB330.0 million open-end wealth management product issued by a reputable state-owned bank, with no maturity date; (iii) RMB307.0 million open-end wealth management product issued by a reputable bank; (iv) RMB300.0 million open-end wealth management product issued by a reputable bank; and (v) RMB200.0 million nine-month interval fund issued by a reputable state-owned bank. After the [REDACTED], our investments in wealth management products will be subject to compliance with Chapter 14 of the Listing Rules.

In addition, any investment exceeding RMB8.0 million, through a single transaction or a series of transactions within one year, and any investment exceeding RMB30.0 million in the aggregate, in equity securities of other companies, securities that are convertible into equity of other companies or any operating assets, must be approved by our chief financial officer and the Board.

In relation to the valuation of the financial assets and liabilities at fair value through profit or loss categorized within level 3 of fair value measurement, our Directors (i) carried out independent and sufficient investigation to understand the nature of the financial instruments in considering the merits of the proposed investment; (ii) reviewed the terms of investment agreements; (iii) engaged independent and qualified valuers, which are qualified for providing valuation services under application laws and regulations in PRC, provided necessary financial and non-financial information so as to enable the valuer to perform valuation procedures and discussed with the valuer on relevant assumptions to determine the fair value of our investment in the level 3 financial instruments; and (iv) reviewed the key assumptions with respect to the valuation exercise, the valuation working papers and results prepared by the valuer. Based on the aforesaid procedures, the Directors are of the view that the valuation analysis is fair and reasonable, and our financial statements are properly prepared. In addition, we have a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once every year, the team would use valuation techniques to determine the fair value of our level 3 financial instruments.

The Reporting Accountant has carried out necessary audit procedures in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 “Accountants’ Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountant’s opinion on the Historical Financial Information, as a whole, of the Group for the Track Record Period is set out on pages I-1 to I-3 of Appendix I to this document.

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In relation to the valuation of financial assets and liabilities at fair value through profit or loss categorized within level 3 of fair value measurement, the Joint Sponsors have conducted relevant due diligence work including but not limited to; (i) reviewing relevant notes in the Accountant’s Report as contained in Appendix I and associated valuation reports provided by the Group; and (ii) interviewing the management of the Company, the Reporting Accountant about, among others, the process, method, key bases and assumptions for the valuation. Having considered the work performed by the Directors, the Reporting Accountant and the results of the relevant due diligence performed as stated above, nothing has come to the Joint Sponsors’ attention that would cast doubt on the valuation of the Group’s financial liabilities measured at FVTPL within level 3 of fair value measurement.

Inventories

Our inventories primarily consist of (i) finished goods, which primarily consist of the servers of our “All-in-One” solutions, and (ii) contract fulfillment costs in relation to our deployment services. Contract fulfillment costs represent the costs incurred to fulfill the obligations under the deployment service contracts when and after the contracts are entered into, but before the service thereunder is delivered to users. Such costs primarily consist of employee benefit expenses and technology service fees that are necessary to perform the contracts, which will be recognized to cost of sales mainly within 3-6 months when our related performance obligations are satisfied and upon which the related service contract revenue is recognized. The following table sets forth the breakdown of our inventories as of the dates indicated:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Finished goods	2,884	3,187	20,633	26,232
Contract fulfillment costs	18,125	24,999	165,786	209,478
	21,009	28,186	186,419	235,710
Less: provision for impairment	–	–	(1,920)	(745)
Total	21,009	28,186	184,499	234,965

The increase in our inventories from December 31, 2019 to December 31, 2020 was primarily driven by the increase in our contract fulfillment costs, which was due to our increased contract amounts for customized AI applications development services in line with our business growth. The significant increase in our inventories from RMB28.2 million as of December 31, 2020 to RMB184.5 million as of December 31, 2021 was primarily due to the increase of contract fulfillment costs, mainly because some of our solution projects’ schedules were extended as affected by the COVID-19 pandemic. The increase in our inventories from RMB184.5 million as of December 31, 2021 to RMB235.0 million as of June 30, 2022 was primarily due to the increase of contract fulfillment costs, driven by our increased contract amounts in line with our business growth. As of July 31, 2022, RMB34.6 million, accounting for approximately 14.7% of the RMB235.0 million inventories as of June 30, 2022, had been subsequently settled. We had not experienced any material recoverability issues for our inventories and do not anticipate to have any material recoverability issues for our inventories. We do not anticipate to have any material recoverability issues for our contract fulfillment costs because (i) our management is of the view that the risk of failure to satisfy our related performance obligations is remote considering that our business operation and financial conditions are healthy; (ii) our management is of the view that the risk of material loss under our deployment service contracts is remote considering our high profile client base and, to the best knowledge of our management, their healthy financial conditions in general; and (iii) we had not experienced any material recoverability issues for our contract fulfillment costs throughout the Track Record Period.

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Contract assets

Our contract assets represent our rights to receive consideration for obligations performed under some of our sales contracts. These considerations are not yet payable by the customers as they are subject to certain conditions under the relevant contracts, such as lapse of the warranty period. Our non-current contract assets were RMB0.3 million, RMB0.7 million, RMB1.2 million and RMB13.2 million as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively, and our current contract assets were RMB1.7 million, RMB1.2 million, RMB4.4 million and RMB20.3 million as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively. The increase of our contract assets from December 31, 2021 to June 30, 2022 was primarily due to our business growth. As of July 31, 2022, RMB0.4 million, accounting for approximately 1.2% of the RMB33.5 million contract assets as of June 30, 2022, had been subsequently certified.

In 2019, 2020, 2021 and the six months ended June 30, 2022, our contract assets turnover days were 0.8 days, 0.7 days, 0.7 days and 3.3 days, respectively. The contract assets turnover days is calculated using the average of the opening and closing contract assets balance divided by revenue for the relevant period and multiplied by the number of days during such period. The increase of contract assets turnover days from 0.7 days in 2021 to 3.3 days in the six months ended June 30, 2022 was primarily because the lapse of warranty period or fulfillment of any other conditions under the relevant contracts typically occurs towards the year end.

Trade Receivables

Our trade receivables consist primarily of outstanding fees due from customers in connection with the transactions in connection with our solutions.

Throughout the Track Record Period, our trade receivables have generally continued to increase, which was primarily driven by the overall growth in the volume of transactions enabled by our solutions during the same period. As of December 31, 2019, 2020, 2021 and June 30, 2022, our trade receivables were RMB179.2 million, RMB262.7 million, RMB778.3 million and RMB803.3 million, representing approximately 39%, 28%, 39% and 76% of our revenue of the years ended December 31, 2019, 2020, 2021 and six months ended June 30, 2022, respectively. This percentage decreased from 39% as of the end of 2019 to 28% as of the end of 2020, primarily because we gained more bargaining power as our business developed, and thus we were able to negotiate for shorter credit terms and collect trade receivables in shorter periods. As of December 31, 2021, our trade receivables represent approximately 39% of our revenue, primarily because we granted longer credit terms to certain customers. As of June 30, 2022, our trade receivables represent approximately 76% of our revenue, primarily because we typically enhance our receivable collection efforts towards year end, thus the trade receivables we recorded in the middle of 2022 were relatively high.

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The following table sets forth our trade receivables turnover days for the years/periods indicated.

	For the year ended December 31,			For the six months ended June 30,
	2019	2020	2021	2022
Trade receivables turnover days ⁽¹⁾	108	86	94	135

Note:

- (1) Trade receivables turnover days is calculated using the average of the opening and closing trade receivables balance divided by revenue for the relevant period and multiplied by the number of days during such period.

In 2019, 2020, 2021 and the six months ended June 30, 2022, our trade receivables turnover days were 108 days, 86 days, 94 days and 135 days, respectively. The trade receivables turnover days decreased from 2019 to 2020, primarily because we built trust with our customers and gained more bargaining power as our business developed, and thus we were able to negotiate for shorter credit terms in the transactions in connection with our solutions. Our trade receivables turnover days increased from 86 days in 2020 to 94 days in 2021, as we granted longer credit terms to certain customers. Our trade receivables turnover days further increased to 135 days in the six months ended June 30, 2022 primarily because we typically enhance our receivable collection efforts towards year end, thus the trade receivables turnover days for the first half of 2022 were relatively high.

In 2019, 2020, 2021 and the six months ended June 30, 2022, the turnover days of the aggregated trade receivables and contract assets were 109 days, 86 days, 95 days and 139 days, respectively.

The following table sets for the ageing analysis of our trade receivables based on invoice date as of the dates indicated.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>(RMB in thousands)</i>			
Up to 3 months	104,818	126,601	403,264	344,562
3 to 6 months	43,855	87,412	231,336	125,929
6 months to 1 year	33,107	24,432	128,141	260,917
Over 1 year	681	29,564	35,741	90,596
Less: Credit loss allowance	(3,251)	(5,310)	(20,161)	(18,683)
Trade receivable, Net	179,210	262,699	778,321	803,321

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Our trade receivables aged three to six months increased from RMB87.4 million as of December 31, 2020 to RMB231.3 million as of December 31, 2021, and our trade receivables aged six months to one year increased from RMB24.4 million to RMB128.1 million as of the same dates, primarily due to the increase of our revenue, and to a lesser extent, due to the longer credit terms we granted to certain customers. We recorded credit loss allowance of RMB3.3 million, RMB5.3 million, RMB20.2 million and RMB18.7 million as of December 31, 2019, 2020, 2021 and June 30, 2022, accounting for approximately 2%, 2%, 3% and 2% of our trade receivables as at the same dates, respectively. As of July 31, 2022, RMB485.5 million, accounting for approximately 62.4% of the RMB778.3 million outstanding trade receivables as of December 31, 2021, and RMB134.5 million, accounting for approximately 16.7% of the RMB803.3 million outstanding trade receivables as of June 30, 2022 had been subsequently settled. As of July 31, 2022, RMB89.4 million, accounting for approximately 54.5% of the RMB163.9 million outstanding trade receivables from non-top five customers that had aged more than 180 days as of December 31, 2021, and RMB19.2 million, accounting for approximately 7.0% of the RMB276.0 million outstanding trade receivables from non-top five customers that had aged more than 180 days as of June 30, 2022 had been subsequently settled. We do not anticipate to have any material recoverability issue with trade receivables primarily because (i) our trade receivables are mainly due from a selected group of customers with robust credit profiles and no known history of material defaults on their payment obligations; (ii) we assess our customers’ credit quality carefully, taking into account their business background, the general risks associated with their industries, their financial position, past experience and other factors; (iii) throughout the Track Record Period, we have not experienced material recoverability issues for our trade receivables; and (iv) we have in place dedicated internal teams responsible for continually monitoring the credit profiles and operating and financial conditions of our customers and proactively following up on our customers to ensure their payments are made as scheduled.

The Reporting Accountant has performed its work on the financial information included in the Accountant’s Report in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 “Accountants’ Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountant’s opinion on the Historical Financial Information, as a whole, of the Group for the Track Record Period is set out on pages I-1 to I-3 of Appendix I to this Document.

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Prepayments and Other Receivables

The following table sets forth our prepayments and other receivables as of the dates indicated:

	As of December 31,			As of
	2019	2020	2021	June 30,
				2022
	<i>(RMB in thousands)</i>			
Prepayments to suppliers	64,069	130,061	100,861	133,914
Deductible value-added input tax	6,564	18,739	46,631	51,608
Rental, bidding and other deposits	10,566	9,034	16,454	17,607
Loan to a third party	134,882	—	—	—
Interest receivables	1,886	7,027	2,722	—
[REDACTED] expenses to be capitalized	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other receivable from a third party customer	—	—	50,959	50,942
Others	1,238	5,119	8,694	15,078
Total	219,205	169,980	272,002	288,047

Our prepayments and other receivables consist primarily of (i) prepayments to suppliers, (ii) deductible value-added input tax, (iii) rental, bidding and other deposits, (iv) loan to a third party, (v) interest receivables, (vi) [REDACTED] expenses to be capitalized, (vii) other receivable from a third party customer, and (viii) others.

Our prepayments and other receivables decreased from RMB219.2 million as of December 31, 2019 to RMB170.0 million as of December 31, 2020, mainly due to the settlement of a loan to a third party. Such third party primarily engages in business of IT technology services and system integration, and is a customer of ours. The company is an Independent Third Party. During the Track Record Period and up to the Latest Practicable Date, other than as disclosed above and to the best of our knowledge, none of us, our Directors, Supervisors, senior management, or any of our shareholders (who or which to the knowledge of the Directors owned more than 5% of our issued share capital) and any of their respective associates had any interest in, or any other past or present relationships (business, employment, family, trust, financing or otherwise) with such third party or its ultimate beneficial owner. Before granting the loan, we conducted comprehensive due diligence on such third party, such as its business background, financial condition, operating history, and payment history in our business cooperation. Based on the due diligence work, we believe such third party is

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creditable considering that, at the time of granting the loan, it had obtained various licenses and certifications requisite for its business operations, approximately ten years operating history, sufficient revenue and asset to recover the loan, and a registered capital of RMB20 million, and we did not experience any material defaults on its payment obligations as a customer. Therefore, we believe that the risk of default was relatively low. In addition, having considered that the term of the loan is relatively short, and to increase the yield of our cash on hand as we closed our Series C Financing before granting the loan, we provided the loan to such third party which will be used for general corporate and business expansion purposes pursuant to the relevant loan agreement. Negotiations of the terms of the loan and sales to this company were conducted separately, and the loan and sales were neither connected nor conditional upon each other. Our Directors confirmed our negotiations with such company were on an arm’s length basis. The loan was a one-year term loan with an interest rate at 3.86% per annum with no collaterals. As of the Latest Practicable Date, the borrower has paid up the principal and the interest of the loan. Our PRC Legal Advisor advised us that Article 61 of the General Lending Provisions (《貸款通則》) issued by the PBOC prohibits any financing arrangements or lending transactions between non-financial institutions. Further, pursuant to Article 73 of the General Lending Provisions, the PBOC may impose on the non-compliant lender a fine of one to five times the income received by the lender from such loans. Our PRC Legal Advisor further advised that, notwithstanding the General Lending Provisions, the Supreme People’s Court has made new interpretations concerning financing arrangements and lending transactions between non-financial institutions in the Provisions of the Supreme People’s Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) (the “Judicial Interpretations on Private Lending Cases”) which came into effect on September 1, 2015 and was amended on December 29, 2020. According to Article 11 of the Judicial Interpretations on Private Lending Cases, the Supreme People’s Court recognizes the validity and legality of financing arrangements and lending transactions between non-financial institutions so long as certain requirements, such as the interest rates charged, are satisfied and there is no violation of mandatory provisions of laws and regulations. On this basis, our PRC Legal Advisor is of the view that the relevant loan agreements were legally binding. As at the Latest Practicable Date, we had not received any notice of claim or was subject to any investigation or penalty relating to the loans with the third party; and the loan had been fully settled. On this basis, our PRC Legal Advisor is of the view that the risk of us being penalized for the above mentioned loan pursuant to the General Lending Provisions by the relevant regulatory authorities is remote.

Our prepayments and other receivables increased from RMB170.0 million as of December 31, 2020 to RMB272.0 million as of December 31, 2021, primarily because (i) we recorded RMB51.0 million in other receivable from a third party customer in 2021, primarily due to our procurement of hardware to facilitate delivery of Sage Platform and applications to an end user (see Note 22(a) to the Accountant’s Report in Appendix I to this Document), and (ii) we recorded RMB[REDACTED] in [REDACTED] expenses in 2021.

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Our prepayments and other receivables increased from RMB272.0 million as of December 31, 2021 to RMB288.0 million as of June 30, 2022, primarily because our prepayments to suppliers in 2021 increased from RMB100.9 million as of December 31, 2021 to RMB133.9 million as of June 30, 2022, primarily as a result of our business growth. As of July 31, 2022, RMB58.6 million, accounting for approximately 20.3% of the RMB288.0 million outstanding prepayments and other receivables as of June 30, 2022 had been subsequently settled.

Cash and Cash Equivalents

Our cash and cash equivalents were RMB703.8 million, RMB1,052.1 million, RMB1,292.7 million and RMB1,420.9 million, respectively, as of December 31, 2019, 2020, 2021 and June 30, 2022. Our cash and cash equivalents increased significantly during the Track Record Period primarily due to increased capital contribution from our shareholders.

Liabilities

Redemption Liabilities

Our redemption liabilities primarily relate to our obligation to repurchase our own equity instruments in connection with the redemption rights and liquidation preferences granted to the investors in certain situations. Since the date of our inception to June 30, 2022, we have completed several rounds of financing including Series A, Series A-1, Series A-2, Series B-1, Series B-2, Series C, Series C-1, Series C-2, Series D and Series D+, in the way of capital increase of the Company and capital transfer from founders to investors. The key terms of the preferred rights granted to these investors may include: (i) redemption right, a right to require the Company to redeem their investments under circumstances such as failure to achieve a [REDACTED] (“[REDACTED]”) by the third anniversary of the initial closing date of Series D, (ii) liquidation preferences, which means in the defined liquidation events, the distributable liquidation property (after satisfaction of all creditors’ claims and other preferred claims) shall be distributed in the amount equal to the higher of (a) 100% of the original investment principal, plus the accumulated dividends or declared but undistributed dividends (and retained earnings) on the equity held; or (b) the distributable liquidation property can be distributed according to the equity proportion at that time, and in the priority order of Series D+/Series D, Series C-2, Series C-1, Series C, Series B, Series A-2, Series A-1 to Series A, and (iii) anti-dilution right, pursuant to which if the Company increases its registered capital at a price lower than the price paid by the anti-dilution right holders, the subscription price per unit invested by these holders in the Company will be adjusted. The redemption rights and liquidation preferences granted to the investors constitute as the Company’s obligations to repurchase its own equity instruments. These obligations were recognized as redemption liabilities which are initially measured at fair value (representing the present value of the expected cash flows for settling the related obligations if these rights are exercised by the investors) and subsequently measured at amortized cost. Our redemption liabilities were RMB1,528.2 million, RMB2,147.0 million, RMB5,822.2 million, RMB6,145.7 million and RMB6,202.9 million, respectively, as of December 31, 2019, 2020, 2021, June 30, 2022 and

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July 31, 2022. The significant increase of redemption rights from that as of December 31, 2020 to that as of June 30, 2022 was primarily in connection with our equity financing activities. We expect to turn our net liabilities position into net assets upon [REDACTED], as the carrying amount of redemption liabilities will be reclassified from financial liabilities to equity as a result of the termination of the aforesaid preferred rights.

The following table sets forth movement of the carrying amounts of our redemption liabilities.

	As of December 31,			As of
	2019	2020	2021	June 30,
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Redemption liabilities	1,528,181	2,147,031	5,822,196	6,145,742

Other Non-Current Liabilities

Our other non-current liabilities consist primarily of (i) deferred government grants, (ii) advance from investors, and (iii) payable for acquisition of subsidiaries. We had other non-current liabilities of RMB279.4 million, RMB772.1 million, RMB66.5 million and RMB51.2 million, respectively, as of December 31, 2019, 2020, 2021 and June 30, 2022. The decrease of our other non-current liabilities from December 31, 2020 to December 31, 2021 was primarily attributable to the decrease in advance from investors from RMB771.7 million as of December 31, 2020 to nil as of December 31, 2021. This decrease in advance from investors was primarily due to the settlement of the amount of advance from our investors upon closing of our Series D financing.

Other Payables and Accruals

Our other payables and accruals primarily related to our employee benefits during the Track Record Period, primarily consisting of payroll payables, taxes payables and accrued expenses and others. The following table sets forth our other payables, accruals and other liabilities as of the dates indicated.

	As of December 31,			As of
	2019	2020	2021	June 30,
				2022
	(RMB in thousands)			
Payroll payables	38,241	50,763	75,301	73,220
Amount collected on behalf of third parties	36,585	–	–	–
[REDACTED] expenses payable	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other taxes payables	11,231	19,498	39,718	24,732

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	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>(RMB in thousands)</i>			
Expense reimbursement	1,475	921	6,178	5,652
Payable to a third party hardware supplier	–	–	31,000	31,000
Accrual expenses and others	9,644	2,184	14,353	5,301
	<u>97,176</u>	<u>73,366</u>	<u>183,863</u>	<u>163,617</u>

Other payables and accruals were RMB97.2 million, RMB73.4 million, RMB183.9 million and RMB163.6 million as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively. The significant increase of our other payables and accruals from December 31, 2020 to December 31, 2021 was primarily because (i) we recorded RMB31.0 million in payable to a third party hardware supplier, primarily due to our procurement of hardware to facilitate delivery of Sage Platform and applications, and (ii) our payroll payables increased from RMB50.8 million as of December 31, 2020 to RMB75.3 million as of December 31, 2021, due to the increase of our employees headcounts in line with our business growth. In 2021, we cooperated with a hardware supplier to deliver software and hardware together to a customer, and we acted as an agent for purchasing certain hardware on behalf of the customer while we acted as a principal in delivering the software to the customer pursuant to the sales agreement with the customer. For details, see Note 22(a) to the Accountant’s Report in Appendix I to this Document. Such transaction was a one-time arrangement pursuant to the request of such customer.

Trade Payables

Our trade payables consist primarily include payables for inventories and outsourcing service fees. During the Track Record Period, driven by the rapid growth in the volume of transactions enabled by our solutions, our trade payables has generally continued to increase, from RMB15.2 million as of December 31, 2019 to RMB85.0 million as of December 31, 2020 and further to RMB321.4 million as of December 31, 2021. The significant increase of our trade payables from that as of December 31, 2020 to that as of December 31, 2021 was primarily due to the increase of our procurement amount, driven by our business growth. Our trade payables slightly decreased from RMB321.4 million as of December 31, 2021 to RMB291.7 million as of June 30, 2022.

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The following table sets forth our trade payables turnover days for the years/periods indicated.

	For the year ended December 31,			For the six months ended June 30,
	2019	2020	2021	2022
Trade payables turnover days ⁽¹⁾	17	36	70	105

Note:

- (1) Trade payables turnover days is calculated using the average of the opening and closing trade payables balance divided by cost of sales for the relevant period and multiplied by the number of days during such period.

In 2019, 2020, 2021 and the six months ended June 30, 2022, our trade payables turnover days were 17 days, 36 days, 70 days and 105 days, respectively. Our trade payables turnover days increased throughout the Track Record Period primarily because we built trust with our suppliers and gained more bargaining power as our business developed, and thus we were able to negotiate for longer settlement terms in the transactions in connection with our solutions.

As of July 31, 2022, RMB50.1 million, accounting for approximately 17.2% of the RMB291.7 million trade payables as of June 30, 2022, had been subsequently settled.

Lease Liabilities

Lease liabilities represent the present value of outstanding lease payments under our lease agreements. We recorded non-current lease liabilities of RMB38.8 million, RMB17.6 million, RMB11.0 million, RMB7.9 million and RMB7.4 million, respectively, as of December 31, 2019, 2020, 2021, June 30, 2022 and July 31, 2022. We recorded current lease liabilities of RMB26.7 million, RMB21.2 million, RMB24.4 million, RMB16.0 million and RMB12.6 million, respectively, as of December 31, 2019, 2020, 2021 and June 30, 2022 and July 31, 2022. During the Track Record Period, we have obtained the right to use certain office buildings through lease agreements with terms typically running for an initial period of one to three years.

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KEY FINANCIAL RATIO

We believe that our revenue growth, gross profit margin and contribution margin are important measures of our operation efficiency over time. Revenue growth rate shows the period-over-period growth rate of our total revenue, and gross profit margin equals revenue less cost of sales divided by revenue. Contribution margin is defined as a percentage of contribution bearing to revenue. Contribution is defined as revenue less the cost of sales and selling and marketing expenses. The following table sets forth a summary of our key financial ratios for the years/periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
	%	%	%	%	%
Revenue growth	N/A	105.0	114.2	NA	34.3
Gross profit margin	43.5	45.6	47.2	44.0	50.0
Contribution margin	14.0	19.3	24.7	14.0	33.8

As a result of our continuous business expansion, our revenue growth rate was 105.0% in 2020 compared to 2019, 114.2% in 2021 compared to 2020 and 34.3% in the six months ended June 30, 2022 compared to the corresponding period in 2021. Our overall gross profit margin increased from 43.5% in 2019 to 45.6% in 2020 primarily due to our optimized cost structure as a result of the advancement of our solutions, and further to 47.2% in 2021, primarily due to the increase of revenue contribution of application development and other services, which had relatively high gross profit margins, mainly as a result of recovery from the negative impact of COVID-19. Our overall gross profit margin increased from 44.0% for the six months ended June 30, 2021 to 50.0% for the six months ended June 30, 2022, mainly as a result of the increase of revenue contribution of software licensing, which had relatively high gross profit margins, as software licensing requires less on-site services than our other segments, and thus was less affected by the recurrence of COVID-19 in 2022. Our contribution margin increased from 14.0% in 2019 to 19.3% in 2020 and 24.7% in 2021, and increased from 14.0% for the six months ended June 30, 2021 to 33.8% for the six months ended June 30, 2022. Our contribution margin increased over the Track Record Period primarily because we improved our efficiency in overall costs and selling and marketing.

LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our cash requirements principally from capital contributions from shareholders. After the [REDACTED], we intend to finance our future capital requirements through equity financing activities and debt financing activities in a balanced manner. We do not anticipate any changes to the availability of financing to fund our operation in the future.

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The following table sets forth a summary of our cash flows for the years/periods indicated.

	Year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(unaudited)</i>				
	<i>(RMB in thousands)</i>				
Cash used in operating activities					
Operating cash flows before movements in working capital	(309,500)	(365,959)	(576,136)	(263,379)	(275,904)
Changes in working capital	(85,568)	(87,879)	(202,298)	(140,084)	(82,651)
Cash used in operations	(395,068)	(453,838)	(778,434)	(403,463)	(358,555)
Interest received	497	898	11,113	5,905	6,686
Income tax paid	–	–	(2,687)	–	(4,393)
Net cash used in operating activities	(394,571)	(452,940)	(770,008)	(397,558)	(356,262)
Net cash generated from/(used in) investing activities	37,513	(139,083)	(3,199,611)	(3,118,167)	490,051
Net cash generated from/(used in) financing activities	1,028,766	942,428	4,210,015	3,446,083	(5,701)
Net increase/(decrease) in cash and cash equivalents	671,708	350,405	240,396	(69,642)	128,088
Cash and cash equivalents at the beginning of the year/period	32,331	703,786	1,052,073	1,052,073	1,292,686
Effects of exchange rate changes on cash and cash equivalents	(253)	(2,118)	217	(735)	148
Cash and cash equivalents at the end of the year/period	703,786	1,052,073	1,292,686	981,696	1,420,922

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Net Cash Used in Operating Activities

In the six months ended June 30, 2022, our net cash used in operating activities was RMB356.3 million. The difference between our net cash generated from operating activities and our loss before taxation primarily resulted from interest expenses of RMB328.3 million, partially offset by (i) a decrease in trade payables of RMB48.2 million and (ii) fair value changes on financial assets at fair value through profit or loss of RMB39.2 million.

In 2021, our net cash used in operating activities was RMB770.0 million. The difference between our net cash generated from operating activities and our loss before taxation primarily resulted from (i) share-based payment expenses of RMB603.6 million, (ii) interest expenses of RMB646.8 million and (iii) increase in trade payables of RMB217.2 million, partially offset by increase in trade receivables of RMB420.1 million.

In 2020, our net cash used in operating activities was RMB452.9 million. The difference between our net cash generated from operating activities and our loss before taxation primarily resulted from (i) interest expenses of RMB188.7 million, (ii) share-based payment expenses of RMB173.7 million, (iii) increase in trade payables of RMB69.7 million and (iv) increase in contract liabilities of RMB56.3 million, partially offset by (i) increase in trade receivables of RMB85.5 million, (ii) increase in prepayments and other receivables of RMB80.6 million, (iii) decrease in other payables and accruals of RMB23.8 million and (iv) fair value changes on financial assets at fair value through profit or loss of RMB18.4 million.

In 2019, our net cash used in operating activities was RMB394.6 million. The difference between our net cash generated from operating activities and our loss before taxation primarily resulted from (i) share-based payment expenses of RMB233.2 million, (ii) interest expenses of RMB163.5 million, (iii) increase in other payables and accruals of RMB33.0 million and (iv) depreciation of right-of-use assets of RMB15.6 million, partially offset by (i) increase in trade receivables of RMB88.0 million, (ii) increase in prepayments and other receivables of RMB39.0 million, (iii) fair value changes on financial assets at fair value through profit or loss of RMB19.0 million and (iv) increase in inventories of RMB11.5 million.

Our ability to improve our net operating cash flow is largely depending on our ability to improve profitability. In this regard, we plan to improve our net operating cash outflow positions by (i) effectively attracting and retaining our users to drive our revenue growth and profitability, (ii) continuing to create value for users to explore additional monetization opportunities that help us scale up our revenues and to achieve profitability, and (iii) effectively managing our cost and expenses by improving our operational efficiency. For details of our plan to improve our financial performance, see “Business – Business Sustainability and Path to Profitability.” With our improving profitability, we also expect our operating cash flow to improve concurrently. Moreover, we plan to enhance our working capital management efficiency to improve our net operating cash outflow positions. We plan to enhance our management of trade receivables by continually monitoring the credit profiles and operating and financial conditions of our customers and proactively following up on our customers to ensure their payments as scheduled. We plan to increase the focus on trade

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receivable collection when evaluating the performance of our sales team. In addition, as we built trust with our customers and gained more bargaining power as our business developed, we are able to negotiate for shorter credit terms with our customers. We also expect to be able to enjoy economics of scale as we scale up, which will further improve our net operating cash outflow positions. Specifically, as we scale up, we expect to have stronger bargaining power against our suppliers and are thus able to obtain more favorable credit terms. That being said, as our future profitability is subject to various factors, **we may continue to incur net losses and net operating cash outflow in the near future, including the year ending December 31, 2022.**

Net Cash Generated from/(Used in) Investing Activities

In the six months ended June 30, 2022, our net cash generated from investing activities was RMB490.1 million, consisting primarily of (i) proceeds from disposal of short-term investments measured at fair value through profit or loss of RMB1,928.8 million, (ii) investment income received of RMB23.6 million, and (iii) withdrawal of term bank deposits of RMB10.0 million, partially offset by (i) purchase of short-term investments measured at fair value through profit or loss of RMB1,230.0 million, (ii) placement of term bank deposits of RMB110.0 million, and (iii) acquisition of subsidiaries, net of cash acquired of RMB119.1 million.

In 2021, our net cash used in investing activities was RMB3,199.6 million, consisting primarily of (i) purchase of short-term investments measured at fair value through profit or loss of RMB7,650.8 million, (ii) placement of term bank deposits of RMB520.0 million and (iii) acquisition net of cash acquired of RMB254.7 million, partially offset by (i) disposal of short-term investments measured at fair value through profit or loss of RMB5,321.5 million and (ii) withdrawal of short-term bank deposits of RMB95.6 million.

In 2020, our net cash used in investing activities was RMB139.1 million, primarily attributable to (i) purchase of short-term investments measured at fair value through profit or loss of RMB2,656.2 million, (ii) placement of short-term bank deposits of RMB95.6 million and (iii) purchase of property and equipment and intangible assets of RMB51.3 million, partially offset by (i) repayment of loan by a third party of RMB135.0 million and (ii) disposal of short-term investments measured at fair value through profit or loss of RMB2,553.7 million.

In 2019, our net cash generated from investing activities was RMB37.5 million, primarily attributable to disposal of short-term investments measured at fair value through profit or loss of RMB1,879.3 million, partially offset by (i) loan to a third party of RMB135.0 million and (ii) purchase of short-term investments measured at fair value through profit or loss of RMB1,666.1 million.

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Net Cash Generated from/(used in) Financing Activities

In the six months ended June 30, 2022, our net cash used in financing activities was RMB5.7 million, primarily attributable to (i) payment of [REDACTED] expenses to be capitalized of RMB[REDACTED], and (ii) payment of lease liabilities of RMB13.1 million, partially offset by proceeds from borrowings of RMB26.8 million.

In 2021, our net cash generated from financing activities was RMB4,210.0 million, primarily attributable to proceeds injected by founders and investors of RMB4,283.5 million.

In 2020, our net cash generated from financing activities was RMB942.4 million, primarily attributable to proceeds injected by founders and investors of RMB969.3 million.

In 2019, our net cash generated from financing activities was RMB1,028.8 million, primarily attributable to proceeds injected by founders and investors of RMB1,044.8 million.

Working Capital

Taking into account (i) the financial resources available to us, including a total of RMB3,920.0 million liquid cash resources as of June 30, 2022 (that include cash and cash equivalents, short-term and long-term bank deposits, short-term investments measured at fair value through profit or loss, restricted cash), (ii) the portion of the estimated net [REDACTED] from the [REDACTED] expected to be used for working capital and general corporate purposes, (iii) our good track record in being able to raise money from renowned investors to finance our business, as evidenced by our historical fund-raising activities, and (iv) our plans to continue to enhance our financial performance, for details of which see “Business – Business Sustainability and Path to Profitability”, our Directors believe that we have sufficient working capital for our present requirements and for the next 12 months from the date of this Document.

CAPITAL EXPENDITURES

Our principal capital expenditures relate primarily to (i) property and equipment, including leasehold improvements, computer and electric equipment, and office furniture and equipment, and (ii) intangible assets, primarily including software and copyrights and intangible assets recognized as a result of our acquisition of subsidiaries.

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The following table sets forth our capital expenditures for the years/periods indicated.

	For the year ended December 31,			For the six months ended June 30,
	2019	2020	2021	2022
	<i>(RMB in thousands)</i>			
Property and equipment	23,039	29,036	15,474	5,900
Intangible assets	2,089	22,239	401,345	98,021
Total	25,128	51,275	416,819	103,921

We expect to finance our capital expenditures through cash generated from operations, our existing bank borrowings and the net [REDACTED] from the [REDACTED]. Our current capital expenditure plans for any future period are subject to change, and we may adjust our capital expenditures according to our future cash flows, our results of operations and financial condition, our business plans, market conditions and various other factors. See also “Future Plans and Use of [REDACTED] – Use of [REDACTED].”

INDEBTEDNESS

During the Track Record Period, our indebtedness mainly consisted of borrowings, lease liabilities and redemption liabilities. The following table sets forth details of our indebtedness as of the dates indicated:

	As of December 31,			As of June 30,	As of July 31,
	2019	2020	2021	2022	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current					
Borrowings	–	–	3,752	37,833	37,833
Lease liabilities	26,731	21,185	24,364	15,987	12,600
Non-current					
Borrowings	–	–	15,000	15,000	15,000
Lease liabilities	38,835	17,590	11,000	7,887	7,435
Redemption liabilities	1,528,181	2,147,031	5,822,196	6,145,742	6,202,939
Total	1,593,747	2,185,806	5,876,312	6,222,449	6,275,807

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Borrowings

As of December 31, 2019 and 2020, we did not have any bank borrowings or unutilized banking facilities. The following table sets forth our interest-bearing borrowings as of the dates indicated:

	As of December 31,			As of June 30,	As of July 31,
	2019	2020	2021	2022	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Included in current liabilities					
Bank borrowings, secured and guaranteed	–	–	–	11,000	11,000
Factoring borrowings	–	–	3,752	1,173	1,173
Unsecured borrowings	–	–	–	25,660	25,660
Total	<u>–</u>	<u>–</u>	<u>3,752</u>	<u>37,833</u>	<u>37,833</u>
Included in non-current liabilities					
Unsecured borrowings	–	–	15,000	15,000	15,000
Total	<u>–</u>	<u>–</u>	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>

Our secured and guaranteed bank borrowings were all owed by the subsidiary newly acquired in June 2022, EpicHust. See Note 34(c) to the Accountant’s Report in Appendix I to this Document. The borrowings bear interests at fixed interest rates ranging from 4.35%-5.05% per annum as of June 30, 2022.

Our current unsecured borrowings consist of RMB25.7 million bank borrowings by one of our subsidiaries, Guangzhou Jianxin, with fixed interest rates ranging from 4.50%-4.85% per annum, which were guaranteed by the Company or with no guarantee and should be repaid by May or June 2023.

Our non-current unsecured borrowings primarily consist of RMB15 million borrowed by one of our subsidiaries, Guangzhou Jianxin, from its non-controlling shareholder, which is unsecured, interest-free and repayable on demand after June 30, 2024.

For details, see Note 30 to the Accountant’s Report in Appendix I to this Document.

Lease Liabilities

For details of our lease liabilities, see “– Liabilities – Lease Liabilities.”

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Redemption Liabilities

For details of our redemption liabilities, see “– Liabilities – Redemption Liabilities.”

Contingent Liabilities

We did not have any material contingent liabilities as of December 31, 2019, 2020, 2021, June 30, 2022 and July 31, 2022.

Our Directors confirm that as of the Latest Practicable Date, the agreements under our borrowings did not contain any covenant that would have a material adverse effect on our ability to make additional borrowings or issue debt or equity securities in the future. Our Directors further confirm that we had no defaults in bank and other borrowings, nor did we breach any covenants (that were not waived) during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirm that during the Track Record Period and up to the Latest Practicable Date, we did not experience any material difficulties in obtaining credit facilities, or withdrawal of facilities or requests for early repayment.

Save as otherwise disclosed under sections headed “– Indebtedness” and “– Contractual Obligations,” we did not have any outstanding loan, capital issued or agreed to be issued, debt securities, mortgages, charges, debentures, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, hire purchase commitments or other contingent liabilities as of July 31, 2022, being the latest practicable date for our indebtedness statement. Our Directors confirm that, as of the Latest Practicable Date, there had been no material change in our indebtedness since July 31, 2022.

CONTRACTUAL OBLIGATIONS

Capital Commitments

Our capital commitments are related to our equity investment. Our capital expenditure contracted for but not yet incurred as of December 31, 2019, 2020, 2021 and June 30, 2022 was RMB20.0 million, RMB35.0 million, RMB20.0 million and RMB20.0 million, respectively. We expect to satisfy our capital commitments using cash from operations, net [REDACTED] to be received from the [REDACTED] and bank borrowings available to us.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we did not have any material off-balance sheet commitments or arrangements.

RELATED PARTY TRANSACTIONS AND BALANCES

We enter into transactions with our related parties from time to time. Our Directors are of the view that each of the related party transactions set out in Note 37 to the Accountant’s Report included in Appendix I to this Document was conducted in the ordinary course of

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business on an arm’s-length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or cause our historical results to become non-reflective of our future performance. Our balances with related parties as of June 30, 2022 as set out in Note 37 to the Accountant’s Report in Appendix I to this Document are primarily trade in nature. We had already fully repaid the borrowings guaranteed by the non-controlling shareholders. The non-trade balance due from related parties will be settled prior to the [REDACTED].

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISKS

We are exposed to a variety of market risks, including foreign currency risk, interest rate risk and price risk, as well as credit risks and liquidity risks, as set out below. We manage and monitor these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market Risk

(i) Foreign exchange risk

Foreign exchange risk primarily arises from recognized assets and liabilities denominated in a currency other than the functional currency of entities comprising us. We operate mainly in the PRC with most of the transactions settled in RMB.

(ii) Interest rate risk

Our interest rate risk primarily arose from redemption liabilities, borrowings, term bank deposits and cash and cash equivalents. Those carried at floating rates expose us to cash flow interest rate risk whereas those carried at fixed rates expose us to fair value interest rate risk.

(iii) Price risk

We are exposed to price risk in respect of the long-term investments and short-term investments held by us and classified in the balance sheet as at fair value through profit or loss. We are not exposed to commodity price risk. To manage the price risk arising from the investments, we diversify our portfolio. The investments are managed by management one by one, either for strategic purposes, or for the purpose of achieving investment yield and balancing our liquidity level simultaneously. The sensitivity analysis is performed by management.

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Credit Risks

We are exposed to credit risk in relation to our cash and cash equivalents, restricted cash, term bank deposits, short-term investments measured at fair value through profit or loss, trade receivables, other receivables and contract assets. The carrying amounts of each class of the above financial assets and contract assets represent our maximum exposure to credit risk in relation to financial assets and contract assets.

To manage risk arising from cash and cash equivalents, restricted cash, term bank deposits and short-term investments measured at fair value through profit or loss, we only transact with state-owned or reputable financial institutions. There has been no recent history of default in relation to these financial institutions.

To manage risk arising from trade receivables and contract assets, we have policies in place to ensure that sales with credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. The credit period granted to the customers is usually no more than 90 days and the credit quality of these customers is assessed by taking into account their financial position, past experience and other factors.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experiences. In view of the history of cooperation with debtors and the sound collection history of receivables due from them, management believes that the credit risk inherent in our outstanding other receivables balances due from them is low.

Liquidity Risks

We aim to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, our policy is to regularly monitor our liquidity risk and to maintain adequate cash and cash equivalents or adjust financing arrangements to meet our liquidity requirements.

DIVIDEND

No dividends have been paid or declared by us or our subsidiaries during each of the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022.

After completion of the [REDACTED], our Shareholders will be entitled to receive dividends we declare. As of the Latest Practicable Date, we did not have a formal dividend policy. The Board has approved a dividend policy, which will become effective upon [REDACTED]. Under the dividend policy, we may provide our Shareholders with interim or annual dividends as the Board deems appropriate. The Board will consider, among other things, the following factors when proposing dividends and determining the amount of dividends:

FINANCIAL INFORMATION

- our actual and projected financial performance;
- our estimated working capital requirements, capital expenditure requirements and future business expansion plan;
- our present and future cash flow;
- other internal and external factors that may have an impact on our business operations or financial performance and position; and
- other factors that our Board deem relevant.

Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents, including (where required) the approval of our Shareholders.

PRC laws require that dividends be paid only out of our distributable profits. Distributable profit is our profit as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. We do not expect such difference between distributable profits calculated under PRC GAAP and IFRS, or other differences between PRC GAAP and IFRS to have a material impact on our financial performance. As a result, we may not have sufficient or any distributable profits to make dividend distributions to our Shareholders, even if we become profitable. Any distributable profits not distributed in a given year are retained and available for distribution in subsequent years. Our dividend distribution may also be restricted if we incur debt or losses or in accordance with any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries may enter into in the future.

DISTRIBUTABLE RESERVES

As of June 30, 2022, we did not have any distributable reserves.

[REDACTED] EXPENSES

Our [REDACTED] expenses mainly include [REDACTED] fees and commissions and professional fees paid to legal, accounting and other advisors for their services rendered in relation to the [REDACTED] and the [REDACTED]. Assuming full payment of the discretionary incentive fee, the estimated total [REDACTED] expenses (based on the midpoint of the [REDACTED] Range and assuming that the [REDACTED] is not exercised) for the [REDACTED] are approximately HK\$[REDACTED], an equivalent to approximately RMB[REDACTED], accounting for [REDACTED]% of our gross [REDACTED]. These [REDACTED] expenses comprise of (i) HK\$[REDACTED] of [REDACTED] expenses (including but not limited to commissions and fees); and (ii) HK\$[REDACTED] of [REDACTED] expenses, including HK\$[REDACTED] of fees and expenses of legal advisors and accountants and HK\$[REDACTED] of other fees and expenses.

FINANCIAL INFORMATION

As of June 30, 2022, we had incurred RMB[REDACTED] of [REDACTED] expenses for the [REDACTED], among which RMB[REDACTED] was charged to our consolidated statement of comprehensive income. We estimate that an additional [REDACTED] expenses of RMB[REDACTED] assuming the [REDACTED] is not exercised will be further incurred by our Group. In aggregate, we expect to incur RMB[REDACTED] for the [REDACTED], among which RMB[REDACTED] is expected to be charged to our consolidated statement of comprehensive income and RMB[REDACTED] is directly attributable to the issue of Shares and expected to be charged against equity upon the [REDACTED].

[REDACTED]

FINANCIAL INFORMATION

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, as of the date of this Document, there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects since June 30, 2022, the end of the period reported on the Accountant’s Report included in Appendix I to this Document.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm that, as of the Latest Practicable Date, there were no circumstances that would give rise to disclosure required under Rules 13.13 to 13.19 of the Listing Rules.

FUTURE PLANS AND USE OF [REDACTED]

FUTURE PLANS

See “Business – Our Strategies” for a detailed description of our future plans.

USE OF [REDACTED]

Assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the midpoint of the stated range of the [REDACTED] of between HK\$[REDACTED] and HK\$[REDACTED] per [REDACTED]), we estimate that we will receive net [REDACTED] of approximately HK\$[REDACTED] from the [REDACTED] after deducting the [REDACTED] and other estimated expenses in connection with the [REDACTED].

We intend to use the net [REDACTED] we expect to receive from the [REDACTED] for the purposes and in the amounts set out below.

- Approximately [REDACTED]%, or HK\$[REDACTED], will be allocated over the next three years to enhance our fundamental research, technological capabilities and solution development. We plan to further apportion the use of [REDACTED] as follows.
 - Approximately [REDACTED]%, or HK\$[REDACTED], will be used to strengthen our research and development team over the next three years, including:
 - (i) approximately [REDACTED]%, or HK\$[REDACTED] for the research and development team of our core technologies. Specifically, we intend to allocate:
 - approximately [REDACTED]%, or HK\$[REDACTED] for our AutoML technologies. Advancements in AutoML will lower the barrier for AI application development, help us attract more developers, and expand and upgrade our developer suites, especially the HyperCycle series;
 - approximately [REDACTED]%, or HK\$[REDACTED] for our transfer learning technologies, which will further enhance the ability of our solutions to be applied across difference scenarios, thereby reducing the cost of expansion into new use cases and industry vectors;
 - approximately [REDACTED]%, or HK\$[REDACTED] for our environment learning technologies, which helps further improve data quality and reduce the cost of model training;
 - approximately [REDACTED]%, or HK\$[REDACTED] for our AutoRL technologies, which will further lower the barriers for reinforcement learning by automating the process.

FUTURE PLANS AND USE OF [REDACTED]

For details, see “Business – Our Technology.”

- (ii) approximately [REDACTED]%, or HK\$[REDACTED] for the research and development team of new areas which may lead to the next generation of AI technologies. For example, we are dedicated to developing technologies in the area of data privacy protection, including privacy preserving learning, which is able to enhance data privacy in the process of machine learning, and federated learning which entails training algorithm on local datasets without exchange data samples, thereby enhancing data security and privacy. For details, see “Business – Research and Development.”

To achieve the plans above, we plan to (i) recruit scientists, researchers, architects and engineers with experience in AI and software development, and (ii) increase the compensation levels for our present research and development personnel. To maintain our competitive edges and further innovate our solutions and technologies, we plan to hire over 600 additional scientists, researchers, architects and engineers over the next five years. Qualified candidates include both (1) experienced laterals from renowned AI companies or academic institutions, have published relevant papers on international journals, or have extensive experience in commercialization of AI technologies, and (2) outstanding and talented fresh graduates from leading universities. We believe that qualified and experienced talents are crucial to sustain our leadership in the core technologies, including AutoML, transfer learning, environment learning and AutoRL, and the ongoing refinement of our algorithms, platforms and operating systems. According to CIC, there are intense competitions for AI talents in China. To effectively retain our R&D personnel and prevent them from joining our competitors, we intend to gradually increase the compensation levels for our R&D personnel to keep up with any increase in industry levels and maintain the competitiveness of our compensation package. Specifically, we intend to gradually increase their cash salary and offer share-based incentives to motivate them by providing such persons an opportunity share our business growth and future success.

- Approximately [REDACTED]%, or HK\$[REDACTED], will be used to strengthen our research and development capabilities. Specifically:
 - (i) approximately [REDACTED]%, or HK\$[REDACTED] for the procurement and installation of equipment, devices and/or software to support our increasing business needs over the next three years. We serve many lighthouse users which use our solutions at an increasing scale to meet their business needs. During our research and development and solution testing process, we need to simulate the way how users apply our solutions. Accordingly, we plan to further invest in improving our

FUTURE PLANS AND USE OF [REDACTED]

technology infrastructure to enhance our computing power and storage capabilities to facilitate our research and development and solution testing processes. Specifically, we plan to procure approximately 3,000-5,000 units of high performance computing servers, and to selectively procure management tool software that can enhance our overall R&D efficiency.

- (ii) approximately [REDACTED]%, or HK\$[REDACTED] for the establishment of our new research and development centers. To further enhance our research and development capabilities and to attract local R&D talents, we plan to establish over three new research and development centers primarily in top-tier cities in China in the next three to four years. Under the management of our headquarter, these new research and development centers will work with our headquarter and jointly conduct research and development activities. For details of our research and development focuses, see “Business – Research and Development.”
- (iii) approximately [REDACTED]%, or HK\$[REDACTED] for strengthening our relationship with third-party R&D service providers to further expand our R&D capabilities. During the Track Record Period, we have outsourced certain non-core and less sophisticated research and development projects, such as the development of certain applications in our AI application store and miscellaneous product modules, design of user interfaces and product testing projects. Accordingly, we incurred technology service fees of RMB127.8 million, RMB289.8 million and RMB841.3 million and RMB708.0 million in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. We intend to continue to collaborate with such third-party R&D service providers, such that we can continue to focus on our core research and development activities.
- (iv) approximately [REDACTED]%, or HK\$[REDACTED] for the cultivation of the OpenMLDB community to enhance the activeness and engagement of all AI developers partnerships. We made OpenMLDB in our Sage AIOS an open source platform to share our achievements in AI operating systems with developers across the world. We intend to further cultivate the OpenMLDB community by (1) establishing a dedicated team to manage the community, communicate with developers, continuously developing new codes for the open community, and refine codes contributed by developers, and (2) organizing various types of community events, such as large-scale developer submits, developer workshops, and other innovative developer activities (e.g. live-stream discussions).

FUTURE PLANS AND USE OF [REDACTED]

- Approximately [REDACTED]%, or HK\$[REDACTED], will be allocated to expand our offerings, build our brand and enter into new industry sectors. As of the Latest Practicable Date, we do not have any concrete plans on the new industry verticals that we will enter into. We plan to select industries with considerable monetization opportunities for us, and will conduct careful evaluation and analysis on the expected market size, competitive landscape and potential challenges before entering into new verticals. We plan to further apportion the use of [REDACTED] as follows.
 - Approximately [REDACTED]%, or HK\$[REDACTED], will be used to recruit and retain talents in various industries to strengthen our sales and marketing team, thereby leveraging their industry-specific sales experiences to expand our user base and to increase our customer loyalty, which in turn may increase customers’ spending on our platform. We plan to hire approximately 300 additional sales and marketing staff in the next five years to support our business growth.
 - Approximately [REDACTED]%, or HK\$[REDACTED], will be used to promote our solutions and offerings by engaging in more marketing activities through both offline and online channels. Specifically:
 - (i) approximately [REDACTED]%, or HK\$[REDACTED] will be allocated for organizing and sponsoring high impact events over the next three years. We intend to host two large-scale offline conferences annually, one for developers and the other for users. We also plan to organize one or more industry discussions on a weekly basis. Furthermore, we will also sponsor other influential industry conferences to increase our brand exposure.
 - (ii) approximately [REDACTED]%, or HK\$[REDACTED] will be allocated for collaborating with online media partners to promote our brand awareness among users and potential users.
- Approximately [REDACTED]%, or HK\$[REDACTED], will be allocated over the next three years to pursue strategic investment and acquisition opportunities to implement our long-term growth strategy to develop our solutions and expand and penetrate the industry verticals we cover. We plan to prudently evaluate and consider a wide array of potential investments in emerging businesses that are complementary to our business in terms of improving our technological capabilities and expanding our user base or that can enrich our ecosystem of business partners. Specifically, relevant considerations including: (i) businesses with technologies that are complementary to our solutions, ranging from cutting-edge technologies to improve our overall technology capabilities, to specialized solutions that would allow us to overall optimize the deployment efficacy and completeness of our solution offerings; (ii) business with proven industry know-how in both the verticals

FUTURE PLANS AND USE OF [REDACTED]

that we have already established strong presence and intend to increase the penetration, and the verticals that we may expand into in the future; and (iii) businesses with established industry leading position, meaningful scale of established user base and track record of maintaining healthy and stable financial positions. As such, we may invest in strategic technology enablers, industry or subsector focused specialized solution providers that would overall complete and enhance our solution and service offering. Leveraging such potential strategic investments and acquisitions, we expect to achieve synergies in terms of optimizing our overall deployment efficacy, optimizing our technology capabilities and solution offerings, expanding our user base, among others. We intend to make aforementioned investments and acquisitions mainly through equity, both controlling or non-controlling, and may consider other forms of investment such debt or that with convertible features if such is better suited for the need of the transaction, evaluated on the case-by-case basis. Our Directors, as advised by CIC, are of the view that there are sufficient number of potential targets as there are many technology focused companies and solution providers that meet our criteria. We expect to select our investment target based on the industry in which the target operates, the target’s strength of technology and solutions, the target’s business and financial performance and the synergy between the target and us. See “Financial Information – Discussion of Selected Items from the Consolidated Statements of Financial Position – Assets – Financial Assets at Fair Value through Profit or Loss” for details of our investment approval process. As of the Latest Practicable Date, we did not identify any investment or acquisition target in this regard.

- Approximately [REDACTED]%, or HK\$[REDACTED], will be used for general corporate purposes.

If the [REDACTED] is fixed at the high-end or low-end of the [REDACTED] range (assuming the [REDACTED] is not exercised), the net [REDACTED] will increase or decrease by approximately HK\$[REDACTED] (after deducting [REDACTED] fees and expenses related to the [REDACTED]). We intend to apply the additional or reduced net [REDACTED] to the above uses on a pro rata basis.

If the [REDACTED] is exercised in full, we will receive additional [REDACTED] of approximately HK\$[REDACTED], HK\$[REDACTED] and HK\$[REDACTED] if the [REDACTED] is fixed at the high-end, midpoint and low-end of the [REDACTED] range, respectively. We intend to apply the additional net [REDACTED] to the above uses on a pro rata basis.

If the net [REDACTED] of the [REDACTED] are not immediately used for the purposes described above, to the extent permitted by the relevant laws and regulations, we will deposit the net [REDACTED] into short-term demand deposits with licensed banks or authorized financial institutions, as long as it is deemed to be in the best interests of the Company. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

[REDACTED]

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APPENDIX I

ACCOUNTANT’S REPORT

The following is the text of a report set out on pages I-[1] to I-[3], received from the Company’s reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of HKSIR 200, Accountants’ Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

[Letterhead of PricewaterhouseCoopers]

[DRAFT]

ACCOUNTANT’S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF BEIJING FOURTH PARADIGM TECHNOLOGY CO., LTD. AND GOLDMAN SACHS (ASIA) L.L.C. AND CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED

Introduction

We report on the historical financial information of Beijing Fourth Paradigm Technology Co., Ltd. (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-4 to I-99, which comprises the consolidated balance sheets as at December 31, 2019, 2020 and 2021 and June 30, 2022, the company balance sheets as at December 31, 2019, 2020 and 2021 and June 30, 2022, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022 (the “Track Record Period”) and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-4 to I-99 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [●] (the “Document”) in connection with the initial [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors’ responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

APPENDIX I

ACCOUNTANT’S REPORT

Reporting accountant’s responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants’ Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant’s judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant’s report, a true and fair view of the financial position of the Company as at December 31, 2019, 2020 and 2021 and June 30, 2022 and the consolidated financial position of the Group as at December 31, 2019, 2020 and 2021 and June 30, 2022 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended June 30, 2021 and other explanatory information (the “Stub Period Comparative Financial Information”). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information. Our responsibility is

APPENDIX I

ACCOUNTANT’S REPORT

to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the International Auditing and Assurance Standards Board (“IAASB”). A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant’s report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 36 to the Historical Financial Information which states that no dividends have been paid by Beijing Fourth Paradigm Technology Co., Ltd. in respect of the Track Record Period.

[PricewaterhouseCoopers]

Certified Public Accountants

Hong Kong

[●]

APPENDIX I

ACCOUNTANT’S REPORT

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant’s report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the “Underlying Financial Statements”).

The Historical Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

APPENDIX I

ACCOUNTANT’S REPORT

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended December 31,			Six months ended	
					June 30,	
	Note	2019	2020	2021	2021	2022
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Revenue	6	459,518	942,238	2,018,399	788,205	1,058,224
Cost of sales	9	(259,437)	(512,503)	(1,064,924)	(441,306)	(529,239)
Gross profit		200,081	429,735	953,475	346,899	528,985
Selling and marketing expenses	9	(135,817)	(247,829)	(455,001)	(236,500)	(171,716)
General and administrative expenses	9	(224,482)	(246,493)	(541,730)	(444,332)	(146,009)
Research and development expenses	9	(416,418)	(565,674)	(1,249,485)	(578,324)	(557,949)
Credit loss allowance	9	(1,875)	(1,992)	(15,206)	(5,761)	(257)
Other income	7	10,390	42,583	41,627	13,957	28,516
Other gains, net	8	17,178	29,604	93,514	47,153	42,109
Operating loss		(550,943)	(560,066)	(1,172,806)	(856,908)	(276,321)
Share of (losses)/profits of investments accounted for using the equity method	17	(4,228)	(6,477)	3,802	(1,878)	(717)
Finance income	11	2,383	6,038	24,416	6,909	17,148
Finance costs	11	(163,935)	(188,978)	(647,111)	(329,778)	(328,470)
Loss before income tax		(716,723)	(749,483)	(1,791,699)	(1,181,655)	(588,360)
Income tax (expenses)/credit	12	(1,503)	(727)	(10,369)	(5,777)	4,542
Loss for the year/period		(718,226)	(750,210)	(1,802,068)	(1,187,432)	(583,818)
Other comprehensive (loss)/income:						
<i>Item that may be reclassified to profit or loss</i>						
Currency translation differences		(279)	1,451	1,837	814	(2,160)
<i>Item that will not be reclassified to profit or loss</i>						
Share of other comprehensive income of investments accounted for using the equity method	17	—	—	9,160	—	2,648
Other comprehensive (loss)/income for the year/period, net of tax		(279)	1,451	10,997	814	488
Total comprehensive loss for the year/period		(718,505)	(748,759)	(1,791,071)	(1,186,618)	(583,330)

APPENDIX I

ACCOUNTANT’S REPORT

Note	Year ended December 31,			Six months ended	
				June 30,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Loss attributable to:					
Owners of the Company	(716,576)	(749,650)	(1,785,655)	(1,184,970)	(566,743)
Non-controlling interests	(1,650)	(560)	(16,413)	(2,462)	(17,075)
	(718,226)	(750,210)	(1,802,068)	(1,187,432)	(583,818)
Total comprehensive loss attributable to:					
Owners of the Company	(716,855)	(748,199)	(1,774,658)	(1,184,156)	(566,255)
Non-controlling interests	(1,650)	(560)	(16,413)	(2,462)	(17,075)
	(718,505)	(748,759)	(1,791,071)	(1,186,618)	(583,330)
Loss per share for loss attributable to owners of the Company (expressed in RMB per share)					
13					
Basic	(3.82)	(4.00)	(7.63)	(5.91)	(2.12)
Diluted	(3.82)	(4.00)	(7.63)	(5.91)	(2.12)

APPENDIX I

ACCOUNTANT’S REPORT

CONSOLIDATED BALANCE SHEETS

		As at December 31,			As at June 30,
	Note	2019	2020	2021	2022
		RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets					
Right-of-use assets	14(a)	66,451	37,814	34,074	21,530
Property and equipment	15	32,952	47,658	49,807	47,617
Intangible assets	16	3,459	19,916	395,389	475,571
Investments accounted for using the equity method	17	68,357	86,638	115,173	117,104
Financial assets at fair value through profit or loss	19	7,754	20,936	246,128	254,027
Contract assets	6(a)	256	705	1,195	13,178
Long-term bank deposits	23(c)	–	–	510,203	620,447
Other non-current assets		–	–	1,000	–
		179,229	213,667	1,352,969	1,549,474
Current assets					
Inventories	20	21,009	28,186	184,499	234,965
Contract assets	6(a)	1,700	1,193	4,434	20,328
Trade receivables	21	179,210	262,699	778,321	803,321
Prepayments and other receivables	22(a)	219,205	169,980	272,002	288,047
Financial assets at fair value through profit or loss	19	71,900	174,408	2,535,763	1,851,429
Short-term bank deposits	23(c)	–	95,602	20,000	20,000
Restricted cash	23(b)	336	18,201	8,010	7,213
Cash and cash equivalents	23(a)	703,786	1,052,073	1,292,686	1,420,922
		1,197,146	1,802,342	5,095,715	4,646,225
Total assets		1,376,375	2,016,009	6,448,684	6,195,699

APPENDIX I

ACCOUNTANT’S REPORT

		As at December 31,			As at June 30,
	Note	2019	2020	2021	2022
		RMB'000	RMB'000	RMB'000	RMB'000
Equity and liabilities					
Equity attributable to owners of the Company					
Share capital/paid-in capital	24	8,057	8,851	437,706	437,706
Treasury stock	25	(1,313,614)	(1,746,224)	(4,898,094)	(4,898,094)
Reserves	25	1,976,894	2,628,252	6,643,834	6,644,322
Accumulated losses		(1,319,252)	(2,068,902)	(2,534,467)	(3,101,210)
		(647,915)	(1,178,023)	(351,021)	(917,276)
Non-controlling interests		(4,618)	(4,976)	103,008	96,067
Deficit on total equity		(652,533)	(1,182,999)	(248,013)	(821,209)
Liabilities					
Non-current liabilities					
Lease liabilities	14(b)	38,835	17,590	11,000	7,887
Deferred income tax liabilities	29	268	995	25,027	22,054
Borrowings	30	–	–	15,000	15,000
Redemption liabilities	31	1,528,181	2,147,031	5,822,196	6,145,742
Financial liabilities at fair value through profit or loss	32	18,135	–	–	–
Other non-current liabilities	33	279,432	772,061	66,541	51,239
		1,864,851	2,937,677	5,939,764	6,241,922
Current liabilities					
Trade payables	27	15,231	84,968	321,357	291,738
Other payables and accruals	28	97,176	73,366	183,863	163,617
Contract liabilities	6(b)	20,781	77,099	173,881	211,651
Lease liabilities	14(b)	26,731	21,185	24,364	15,987
Income tax liabilities		–	–	4,926	2,331
Borrowings	30	–	–	3,752	37,833
Other current liabilities		4,138	4,713	44,790	51,829
		164,057	261,331	756,933	774,986
Total liabilities		2,028,908	3,199,008	6,696,697	7,016,908
Total equity and liabilities		1,376,375	2,016,009	6,448,684	6,195,699

APPENDIX I

ACCOUNTANT’S REPORT

COMPANY BALANCE SHEETS

		As at December 31,			As at June 30,
	Note	2019	2020	2021	2022
		RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets					
Right-of-use assets		101	—	—	—
Property and equipment		112	61	44	39
Investment in a subsidiary		—	—	10,000	10,000
Investments accounted for using the equity method		—	14,535	34,312	34,288
Amounts due from subsidiaries	22(b)	1,027,862	1,145,795	4,851,755	5,401,966
		1,028,075	1,160,391	4,896,111	5,446,293
Current assets					
Contract assets		271	—	—	—
Trade receivables		2,220	440	261	—
Prepayments and other receivables	22(a)	501	996	50,814	25,245
Financial assets at fair value through profit or loss	19	50,431	58,066	1,036,180	357,645
Cash and cash equivalents	23(a)	383,055	970,833	575,019	685,116
		436,478	1,030,335	1,662,274	1,068,006
Total assets		1,464,553	2,190,726	6,558,385	6,514,299

APPENDIX I

ACCOUNTANT’S REPORT

		As at December 31,			As at June 30,
	Note	2019	2020	2021	2022
		RMB'000	RMB'000	RMB'000	RMB'000
Equity and liabilities					
Equity attributable to owners of the Company					
Share capital/paid-in capital	24	8,057	8,851	437,706	437,706
Treasury stock	25	(1,313,614)	(1,746,224)	(4,898,094)	(4,898,094)
Reserves	25	1,533,366	2,010,130	5,484,096	5,484,096
Accumulated losses		(578,391)	(1,007,273)	(326,645)	(686,883)
(Deficit on total equity)/total equity		(350,582)	(734,516)	697,063	336,825
Liabilities					
Non-current liabilities					
Deferred income tax liabilities		137	14	4,315	161
Redemption liabilities	31	1,528,181	2,147,031	5,822,196	6,145,742
Other non-current liabilities	33	279,432	771,661	–	–
		1,807,750	2,918,706	5,826,511	6,145,903
Current liabilities					
Trade payables		–	200	522	–
Other payables and accruals	28	7,282	6,336	34,289	31,571
Lease liabilities		103	–	–	–
		7,385	6,536	34,811	31,571
Total liabilities		1,815,135	2,925,242	5,861,322	6,177,474
Total equity and liabilities		1,464,553	2,190,726	6,558,385	6,514,299

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ACCOUNTANT’S REPORT

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Attributable to owners of the Company						Non-controlling interests	Deficit on total equity
		Paid-in capital	Share capital	Treasury stock	Reserves	Accumulated losses	Subtotal		
		(Note 24(a))	(Note 24(b))	(Note 25)	(Note 25)				
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2019		6,062	–	(557,618)	890,230	(602,676)	(264,002)	(3,458)	(267,460)
Comprehensive loss									
Loss for the year		–	–	–	–	(716,576)	(716,576)	(1,650)	(718,226)
Currency translation differences		–	–	–	(279)	–	(279)	–	(279)
Total comprehensive loss for the year		–	–	–	(279)	(716,576)	(716,855)	(1,650)	(718,505)
Transactions with owners in their capacity as owners									
Capital contribution from shareholders	24	1,995	–	–	853,711	–	855,706	–	855,706
Recognition of redemption liabilities	25	–	–	(755,996)	–	–	(755,996)	–	(755,996)
Capital contribution from non-controlling interests		–	–	–	–	–	–	490	490
Share-based payments	26	–	–	–	233,232	–	233,232	–	233,232
Total transactions with owners in their capacity as owners		1,995	–	(755,996)	1,086,943	–	332,942	490	333,432
Balance at December 31, 2019		8,057	–	(1,313,614)	1,976,894	(1,319,252)	(647,915)	(4,618)	(652,533)

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ACCOUNTANT’S REPORT

		Attributable to owners of the Company							
	Note	Paid-in capital (Note 24(a))	Share capital (Note 24(b))	Treasury stock (Note 25)	Reserves (Note 25)	Accumulated losses	Subtotal	Non-controlling interests	Deficit on total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2020		8,057	–	(1,313,614)	1,976,894	(1,319,252)	(647,915)	(4,618)	(652,533)
Comprehensive income/(loss)									
Loss for the year		–	–	–	–	(749,650)	(749,650)	(560)	(750,210)
Currency translation differences		–	–	–	1,451	–	1,451	–	1,451
Total comprehensive income/(loss) for the year		–	–	–	1,451	(749,650)	(748,199)	(560)	(748,759)
Transactions with owners in their capacity as owners									
Capital contribution from shareholders	24	794	–	–	476,242	–	477,036	–	477,036
Recognition of redemption liabilities	25	–	–	(432,610)	–	–	(432,610)	–	(432,610)
Capital contribution from non-controlling interests		–	–	–	–	–	–	202	202
Share-based payments	26	–	–	–	173,665	–	173,665	–	173,665
Total transactions with owners in their capacity as owners		794	–	(432,610)	649,907	–	218,091	202	218,293
Balance at December 31, 2020		8,851	–	(1,746,224)	2,628,252	(2,068,902)	(1,178,023)	(4,976)	(1,182,999)

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ACCOUNTANT’S REPORT

		Attributable to owners of the Company							
	Note	Paid-in capital (Note 24(a))	Share capital (Note 24(b))	Treasury stock (Note 25)	Reserves (Note 25)	Accumulated losses	Subtotal	Non-controlling interests	Deficit on total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2021		8,851	–	(1,746,224)	2,628,252	(2,068,902)	(1,178,023)	(4,976)	(1,182,999)
Comprehensive income/(loss)									
Loss for the year		–	–	–	–	(1,785,655)	(1,785,655)	(16,413)	(1,802,068)
Currency translation differences		–	–	–	1,837	–	1,837	–	1,837
Share of other comprehensive income of investments accounted for using the equity method	17	–	–	–	9,160	–	9,160	–	9,160
Total comprehensive income/(loss) for the year		–	–	–	10,997	(1,785,655)	(1,774,658)	(16,413)	(1,791,071)
Transactions with owners in their capacity as owners									
Capital contribution from shareholders	24	16,611	37,706	–	5,000,884	–	5,055,201	–	5,055,201
Conversion into a joint stock company	24	(25,462)	400,000	–	(1,694,628)	1,320,090	–	–	–
Recognition of redemption liabilities	25	–	–	(4,848,767)	–	–	(4,848,767)	–	(4,848,767)
Derecognition of redemption liabilities	31	–	–	1,696,897	115,387	–	1,812,284	–	1,812,284
Share-based payments	26	–	–	–	582,942	–	582,942	20,692	603,634
Non-controlling interests arising from business combination	34	–	–	–	–	–	–	103,705	103,705
Total transactions with owners in their capacity as owners		(8,851)	437,706	(3,151,870)	4,004,585	1,320,090	2,601,660	124,397	2,726,057
Balance at December 31, 2021		–	437,706	(4,898,094)	6,643,834	(2,534,467)	(351,021)	103,008	(248,013)

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ACCOUNTANT’S REPORT

Attributable to owners of the Company									
	Note	Paid-in capital (Note 24(a))	Share capital (Note 24(b))	Treasury stock (Note 25)	Reserves (Note 25)	Accumulated losses	Subtotal	Non-controlling interests	(Deficit on total equity)/ total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)									
Balance at January 1, 2021		8,851	–	(1,746,224)	2,628,252	(2,068,902)	(1,178,023)	(4,976)	(1,182,999)
Comprehensive income/(loss)									
Loss for the period		–	–	–	–	(1,184,970)	(1,184,970)	(2,462)	(1,187,432)
Currency translation differences		–	–	–	814	–	814	–	814
Total comprehensive income/(loss) for the period		–	–	–	814	(1,184,970)	(1,184,156)	(2,462)	(1,186,618)
Transactions with owners in their capacity as owners									
Capital contribution from shareholders	24	16,611	–	–	4,233,351	–	4,249,962	–	4,249,962
Recognition of redemption liabilities	25	–	–	(4,059,918)	–	–	(4,059,918)	–	(4,059,918)
Derecognition of redemption liabilities	31	–	–	1,696,897	115,387	–	1,812,284	–	1,812,284
Share-based payments	26	–	–	–	582,942	–	582,942	20,692	603,634
Non-controlling interests arising from business combination	34	–	–	–	–	–	–	103,705	103,705
Total transactions with owners in their capacity as owners		16,611	–	(2,363,021)	4,931,680	–	2,585,270	124,397	2,709,667
Balance at June 30, 2021		25,462	–	(4,109,245)	7,560,746	(3,253,872)	223,091	116,959	340,050

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ACCOUNTANT’S REPORT

Attributable to owners of the Company									
		Paid-in capital	Share capital	Treasury stock	Reserves	Accumulated losses		Non- controlling interests	(Deficit on total equity)/ total equity
Note	(Note 24(a))	(Note 24(b))	(Note 25)	(Note 25)			Subtotal		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2022		–	437,706	(4,898,094)	6,643,834	(2,534,467)	(351,021)	103,008	(248,013)
Comprehensive income/(loss)									
Loss for the period		–	–	–	–	(566,743)	(566,743)	(17,075)	(583,818)
Currency translation differences		–	–	–	(2,160)	–	(2,160)	–	(2,160)
Share of other comprehensive income of investments accounted for using the equity method	17	–	–	–	2,648	–	2,648	–	2,648
Total comprehensive income/(loss) for the period		–	–	–	488	(566,743)	(566,255)	(17,075)	(583,330)
Transactions with owners in their capacity as owners									
Non-controlling interests arising from business combination	34	–	–	–	–	–	–	10,134	10,134
Total transactions with owners in their capacity as owners		–	–	–	–	–	–	10,134	10,134
Balance at June 30, 2022		–	437,706	(4,898,094)	6,644,322	(3,101,210)	(917,276)	96,067	(821,209)

APPENDIX I

ACCOUNTANT’S REPORT

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended December 31,			Six months ended	
					June 30,	
	Note	2019	2020	2021	2021	2022
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Cash flows from operating activities						
Cash used in operations	38(a)	(395,068)	(453,838)	(778,434)	(403,463)	(358,555)
Interest received		497	898	11,113	5,905	6,686
Income tax paid		–	–	(2,687)	–	(4,393)
Net cash used in operating activities		<u>(394,571)</u>	<u>(452,940)</u>	<u>(770,008)</u>	<u>(397,558)</u>	<u>(356,262)</u>
Cash flows from investing activities						
Purchase of property and equipment and intangible assets		(25,128)	(51,275)	(21,147)	(9,777)	(5,508)
Proceeds from disposal of property and equipment		674	122	2,240	1,643	10
Placement of term bank deposits		–	(95,602)	(520,000)	(500,000)	(110,000)
Withdrawal of term bank deposits		–	–	95,602	95,602	10,000
Interest income received from term bank deposits and loan to a third party		–	–	7,405	7,405	2,940
Purchase of short-term investments measured at fair value through profit or loss		(1,666,060)	(2,656,199)	(7,650,820)	(4,310,821)	(1,230,000)
Proceeds from disposal of short-term investments measured at fair value through profit or loss		1,879,295	2,553,684	5,321,501	1,848,300	1,928,763
Investment income received		18,732	12,487	53,596	22,982	23,605
Purchase of long-term investments measured at fair value through profit or loss		(5,000)	(7,300)	(225,800)	(3,800)	(6,688)
Purchase of investments accounted for using the equity method		(30,000)	(30,000)	(15,000)	(15,000)	–
Dividends received		–	–	7,513	–	–
Acquisition of subsidiaries, net of cash acquired	34	–	–	(254,701)	(254,701)	(119,071)
Loan to a third party		(135,000)	–	–	–	–
Repayment of loan by a third party		–	135,000	–	–	–
Loan to a related party		–	–	–	–	(4,000)
Net cash generated from/(used in) investing activities		<u>37,513</u>	<u>(139,083)</u>	<u>(3,199,611)</u>	<u>(3,118,167)</u>	<u>490,051</u>

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ACCOUNTANT’S REPORT

	Year ended December 31,			Six months ended June 30,	
<i>Note</i>	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>				
Cash flows from financing activities					
Proceeds injected by founders and investors	1,044,783	969,265	4,283,540	3,453,784	–
Capital contribution from non-controlling interests	490	202	–	–	–
Payment of [REDACTED] expenses to be capitalized	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Proceeds from borrowings	–	–	29,581	15,000	26,833
Repayment of borrowings	–	–	(46,546)	(9,800)	(3,752)
Interest expenses paid	–	–	(713)	(317)	(93)
Payment of lease liabilities	14(b) (16,507)	(27,039)	(27,479)	(12,584)	(13,062)
Net cash generated from/(used in) financing activities	1,028,766	942,428	4,210,015	3,446,083	(5,701)
Net increase/(decrease) in cash and cash equivalents	671,708	350,405	240,396	(69,642)	128,088
Cash and cash equivalents at the beginning of the year/period	32,331	703,786	1,052,073	1,052,073	1,292,686
Effects of exchange rate changes on cash and cash equivalents	(253)	(2,118)	217	(735)	148
Cash and cash equivalents at the end of the year/period	23(a) 703,786	1,052,073	1,292,686	981,696	1,420,922

APPENDIX I

ACCOUNTANT’S REPORT

II. NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION

Beijing Fourth Paradigm Technology Co., Ltd. (the “Company”, formerly known as Shenzhen Qianhai Fourth Paradigm Data Technology Co., Ltd.) was incorporated in Shenzhen, the People’s Republic of China (the “PRC”) on September 17, 2014 as a limited liability company, and relocated to Beijing, PRC on April 21, 2021. On July 9, 2021, the Company was converted into a joint stock company with limited liability under the Company Law of the PRC.

The Company is an investment holding company. The Company and its subsidiaries during the Track Record Period (collectively, the “Group”), are primarily engaged in sales of self-developed artificial intelligence (“AI”) platform (“Sage Platform”) and other ready-to-use applications and provision of application development and other services in the PRC and certain overseas countries and regions.

Mr. Dai Wenyuan is the ultimate controlling shareholder of the Group as at the date of this report.

As at the date of this report, the Company had direct and indirect interests in the following subsidiaries, all being limited liability companies:

Name of subsidiary	Place and date of incorporation	Particulars of issued/registered capital	Equity interest held as at				the date of this report	Principal activities	Note
			December 31,			June 30,			
			2019	2020	2021	2022			
Subsidiaries directly held:									
Fourth Paradigm (Beijing) Data & Technology Co., Ltd.	Mainland China, May 12, 2015	RMB50,000,000	100%	100%	100%	100%	100%	Sales of AI platform, provision of AI related services, research and development of technology	(a)
Shanghai Shishuo Intelligent Technology Co., Ltd.	Mainland China, April 1, 2017	RMB1,000,000	100%	100%	100%	100%	100%	Research and development of technology	(e)
Beijing Fourth Paradigm Science & Technology Co., Ltd.	Mainland China, September 29, 2016	RMB500,000	100%	100%	100%	100%	100%	Investment holding and investment activities	(e)
Fourth Paradigm (Shenzhen) Data & Technology Co., Ltd.	Mainland China, March 11, 2019	RMB5,000,000	100%	100%	100%	100%	100%	Sales of AI platform and provision of AI related services	(e)
Subsidiaries indirectly held:									
Paradigm Telian (Beijing) Technology Co., Ltd.	Mainland China, December 12, 2018	RMB10,000,000	51%	51%	51%	51%	51%	Sales of AI platform and provision of AI related services	(e), (j)
Beijing Xuexian Intelligent Technology Co., Ltd.	Mainland China, January 18, 2019	RMB10,000,000	100%	100%	100%	100%	100%	Provision of AI related services	(e)
Beijing Yuntian Xinrui Technology Co., Ltd.	Mainland China, September 27, 2019	RMB50,000,000	100%	100%	100%	100%	100%	Sales of AI platform and provision of AI related services	(e)
Beijing Future Paradigm Technology Co., Ltd.	Mainland China, May 28, 2018	RMB500,000	60%	60%	60%	60%	60%	Sales of AI platform and provision of AI related services	(e)
Paradigm Rongtong (Beijing) Technology Co., Ltd.	Mainland China, February 6, 2018	RMB10,000,000	55%	55%	55%	55%	55%	Sales of AI platform and provision of AI related services	(e), (j)

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Name of subsidiary	Place and date of incorporation	Particulars of issued/registered capital	Equity interest held as at					Principal activities	Note
			December 31,			June 30,	the date of this report		
			2019	2020	2021	2022			
Fourth Paradigm International Limited	Hong Kong, June 1, 2018	Hong Kong Dollar (“HKD”) 500,000	100%	100%	100%	100%	100%	Sales of AI platform and provision of AI related services	(b)
Fourth Paradigm Southeast Asia Pte. Ltd.	Singapore, July 11, 2018	Singapore Dollar (“SGD”) 50,000	100%	100%	100%	100%	100%	Sales of AI platform, provision of AI related services, research and development of technology	(c)
The 4th Paradigm Europe B.V.	Netherlands, January 21, 2020	Euro (“EUR”) 100,000	N/A	100%	100%	100%	100%	Sales of AI platform and provision of AI related services	(e)
Zhongyuan Putai (Beijing) Intelligent Technology Co., Ltd.	Mainland China, April 14, 2021	RMB50,000,000	N/A	N/A	51%	51%	51%	Sales of AI platform and provision of AI related services	(e)
Guangzhou Jianxin Technology Co., Ltd. (Note 34(a))	Mainland China, April 6, 2005	RMB30,480,000	N/A	N/A	66%	66%	66%	Provision of intelligent platform and solutions in energy and power industry	(d)
Nanchang Jianxin Technology Co., Ltd.	Mainland China, March 24, 2017	RMB3,000,000	N/A	N/A	66%	66%	66%	Research and development of technology	(d), (f), (j)
Sichuan Shibeiyun Technology Co., Ltd	Mainland China, May 15, 2017	RMB9,000,000	N/A	N/A	66%	66%	66%	Research and development of technology	(d), (f)
Guangzhou Shibeiyun Technology Co., Ltd.	Mainland China, January 8, 2018	RMB5,000,000	N/A	N/A	66%	66%	66%	Research and development of technology	(d), (f)
Wuhan Jianxin Technology Co., Ltd.	Mainland China, December 19, 2018	RMB10,000,000	N/A	N/A	66%	66%	66%	Research and development of technology	(d), (f)
Shibeiyun (Guangzhou) Big Data Technology Co., Ltd.	Mainland China, May 25, 2020	RMB20,000,000	N/A	N/A	66%	66%	66%	Research and development of technology	(d), (f)
Shanghai Yisahai Technology Co., Ltd.	Mainland China, June 9, 2021	RMB100,000	N/A	N/A	100%	100%	100%	Investment holding	(e)
Beijing Ideal Information Technology Co., Ltd. (Note 34(b))	Mainland China, April 17, 2000	RMB55,555,556	N/A	N/A	54.44%	54.44%	54.44%	Provision of digital operation and maintenance platform and solutions	(e)
Zhimei Xinchuang (Beijing) Technology Co., Ltd.	Mainland China, October 27, 2020	RMB1,000,000	N/A	35%	35%	35%	35%	Sales of AI platform and provision of AI related services	(e), (g)
Shanghai Laike Paradigm Technology Co., Ltd.	Mainland China, July 19, 2021	RMB10,000,000	N/A	N/A	40%	40%	40%	Sales of AI platform and provision of AI related services	(e), (g)
Hefei Shanyue Intelligence Technology Co., Ltd.	Mainland China, March 4, 2022	RMB20,000,000	N/A	N/A	N/A	51%	51%	Sales of AI platform and provision of AI related services	(e)

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Name of subsidiary	Place and date of incorporation	Particulars of issued/registered capital	Equity interest held as at					Principal activities	Note
			December 31,			June 30,	the date of this report		
			2019	2020	2021	2022			
Fourth Paradigm (Beijing) Digital Technology Co., Ltd.	Mainland China, June 10, 2022	RMB5,000,000	N/A	N/A	N/A	100%	100%	Sales of AI platform and provision of AI related services	(e)
EpicHust Technology (Wuhan) Co., Ltd. (Note 34(c))	Mainland China, March 7, 2012	RMB43,700,000	N/A	N/A	N/A	79.66%	79.66%	Provision of intelligent platform and solutions in manufacturing industry	
Wuxi EpicHust Intelligent Technology Co., Ltd.	Mainland China, April 15, 2016	RMB1,000,000	N/A	N/A	N/A	74.88%	74.88%	Provision of intelligent platform and solutions in manufacturing industry	(h)
Zhuhai EpicHust Intelligent Technology Co., Ltd.	Mainland China, October 16, 2009	RMB600,000	N/A	N/A	N/A	79.66%	79.66%	Provision of intelligent platform and solutions in manufacturing industry	(h)
Shanghai Paradigm Digital Software Technology Co., Ltd.	Mainland China, July 19, 2022	RMB10,000,000	N/A	N/A	N/A	N/A	100%	Sales of AI platform and provision of AI related services	(e)
Changchun Ideal Technology Information Co., Ltd.	Mainland China, August 3, 2022	RMB30,000,000	N/A	N/A	N/A	N/A	54.44%	Provision of digital operation and maintenance platform and solutions	(e)
Nanjing Shibeiyun Technology Co., Ltd.	Mainland China, August 25, 2022	RMB10,000,000	N/A	N/A	N/A	N/A	66%	Research and development of technology	(e)

Notes:

- (a) The statutory financial statements of Fourth Paradigm (Beijing) Data & Technology Co., Ltd. for the years ended December 31, 2019, 2020 and 2021 were audited by Da Hua Certified Public Accountants (Special General Partnership).
- (b) The statutory financial statements of Fourth Paradigm International Limited for the year ended December 31, 2019 were audited by GLORY TO GLORY CPA LIMITED. The statutory financial statements of Fourth Paradigm International Limited for the years ended December 31, 2020 and 2021 were audited by Kenneth K.K. Tsang.
- (c) The statutory financial statements of Fourth Paradigm Southeast Asia Pte. Ltd. for the years ended December 31, 2019 and 2020 were audited by MGI SINGAPORE PAC. The statutory financial statements of Fourth Paradigm Southeast Asia Pte. Ltd. for the year ended December 31, 2021 were audited by FOZL Assurance PAC.
- (d) The statutory financial statements of Guangzhou Jianxin Technology Co., Ltd. and its subsidiaries for the year ended December 31, 2021 were audited by Peng Sheng Certified Public Accountants (Special General Partnership).
- (e) No audited financial statements were issued for these companies as they are either newly incorporated or not required to issue audited financial statements under the statutory requirements of their respective places of incorporation.
- (f) These entities are subsidiaries of Guangzhou Jianxin Technology Co., Ltd. which has been acquired by the Group on March 31, 2021 (Note 34(a)).
- (g) The equity interests of Zhimei Xinchuang (Beijing) Technology Co., Ltd. (“Zhimei Xinchuang”) held by the Group was 35%. Another shareholder holding 30% equity interests of Zhimei Xinchuang who has agreed to act in concert on the operation and investment decision-making of Zhimei Xinchuang, the Group therefore has rights to exercise power, receives variable returns from its involvement, has the ability to affect those returns through its power over Zhimei Xinchuang and is considered to control Zhimei Xinchuang.

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The equity interests of Shanghai Laike Paradigm Technology Co., Ltd. (“Laike Paradigm”) held by the Group was 40%. Another shareholder holding 20% equity interests of Laike Paradigm who has agreed to act in concert on the operation and investment decision-making of Laike Paradigm, the Group therefore has rights to exercise power, receives variable returns from its involvement, has the ability to affect those returns through its power over Laike Paradigm and is considered to control Laike Paradigm.

- (h) These entities are subsidiaries of EpicHust Technology (Wuhan) Co., Ltd. which has been acquired by the Group on June 30, 2022 (Note 34(c)).
- (i) As at December 31, 2019, 2020 and 2021 and June 30, 2022, no subsidiary has non-controlling interests that are material to the Group.
- (j) As at the date of this report, these entities are applying for cancellation of registration.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied throughout the Track Record Period, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”).

The Historical Financial Information has been prepared under the historical cost convention, except that certain financial assets/liabilities (including derivative instruments) are carried at fair value.

The preparation of the financial information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information, are disclosed in Note 4.

All effective standards, amendments to standards and interpretations, which are mandatory for the financial period ended on June 30, 2022, are consistently applied to the Group throughout the Track Record Period.

As at June 30, 2022, the Group has net liabilities of RMB821,209,000, primarily due to the significant amount of redemption liabilities (Note 31). Pursuant to the preferred rights termination agreement as entered into with respective investors on July 16, 2021, all redemption liabilities will be re-classified to equity upon the successful [REDACTED] of the Company. Therefore, the directors of the Company believe that the redemption liabilities will not have cash flow impact to the Group in the next twelve months from the date of the report. Accordingly, the directors of the Company consider that it is appropriate that the Historical Financial Information is prepared on a going concern basis.

New/amended standards have not yet been adopted

Standards and interpretations that have been issued but not yet effective and not been early adopted by the Group during the Track Record Period are as follows:

		Effective for annual period beginning on or after
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023
IFRS 17	Insurance Contracts and Related Amendments	January 1, 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	January 1, 2023
Amendments to IAS 8	Definition of Accounting Estimates	January 1, 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 1, 2023
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The directors of the Company are of the view that the above new/amended standards that have been issued are not expected to have any significant impact on the Group.

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2.2 Principles of consolidation and equity accounting

(a) *Subsidiaries*

Subsidiaries are entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, consolidated balance sheet and consolidated statement of changes in equity.

(b) *Associates*

An associate is an entity over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (d) below), after initially being recognized at cost.

(c) *Joint arrangements*

Under IFRS 11 Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

Joint ventures

Interests in joint ventures are accounted for using the equity method (see (d) below), after initially being recognized at cost in the consolidated balance sheet.

(d) *Equity method*

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group’s share of the post-acquisition profits or losses of the investee in profit or loss, and the Group’s share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognized as a reduction in the carrying amount of the investment.

Where the Group’s share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group’s interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.9.

When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity of the Group that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the Group may elect to measure that investments at fair value through profit or loss in accordance with IFRS 9. The Group shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture.

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(e) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in equity.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

2.3 Business combination

The acquisition method of accounting is used to account for business combinations not under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest’s proportionate share of the acquired entity’s net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity’s incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss.

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If the business combination is achieved in stages, the acquisition date carrying value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial information of the investee’s net assets including goodwill.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (“CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that make strategic decisions.

2.6 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). As the major operations of the Group are within the mainland China, the Group determined to present the Historical Financial Information in RMB, which is the Company’s functional currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income on a net basis within other gains/losses, net.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

(c) *Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statements of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency translation differences are recognized in other comprehensive income.

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On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognized in other comprehensive income.

2.7 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

• Server and electronic equipment	3-5 years
• Office equipment	3-5 years
• Leasehold improvements	Estimated useful lives or remaining lease terms, whichever is shorter

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress mainly represents leasehold improvements under construction, which is stated at actual construction cost less accumulated impairment losses. Construction in progress is transferred to appropriate categories of property and equipment upon the completion of their respective construction and depreciated over their respective estimated useful lives.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within other gains/losses, net in the consolidated statement of comprehensive income.

2.8 Intangible assets

(a) *Goodwill*

Goodwill arising from the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (“CGUs”), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use (“VIU”) and the fair value less costs of disposal (“FVL COD”). Any impairment is recognized immediately as an expense and is not subsequently reversed.

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(b) Other intangible assets

Other intangible assets mainly include software and copyright, technology and customer relationship. They are initially recognized and measured at cost or fair value of intangible assets acquired through business combination. The Group amortizes these intangible assets with a limited useful life using the straight-line method over the following periods:

• Software and copyright	3-5 years
• Technology	5 years
• Customer relationship	5-7 years
• Brand name	10 years

When determining the length of useful lives of these intangible assets, management take into account the (i) estimated period during which such asset can bring economic benefits to the Group; and (ii) the useful life estimated by comparable companies in the market.

In particular, the Company determined the estimated useful life of customer relationship with consideration of the historical cooperation period of existing clients, degree of customer loyalty and historical attrition situation of the customers. In relation to the brand name, the Company considered the historical presence of the brand, its market share in relevant industry, and the remaining period of its business license in determining its estimated useful life.

(c) Research and development expenditures

Research expenditures is recognized as an expense as incurred. Development cost is capitalized only if all of the following conditions are satisfied:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred.

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s FVLCD and VIU. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.10 Investments and other financial assets

2.10.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost.

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The classification depends on the Group’s business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

See Note 18 for details of each type of financial assets.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.10.2 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group’s business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- Fair value through other comprehensive income (“FVOCI”): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/losses, net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/losses, net and impairment expenses are presented as separate line item in the consolidated statement of comprehensive income.
- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the consolidated statement of comprehensive income within other gains/losses, net in the period in which it arises.

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Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group’s management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group’s right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in the consolidated statement of comprehensive income. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2.10.3 Impairment

The Group assesses on a forward-looking basis for the expected credit losses on financial assets (including trade receivables, other receivables, term bank deposits, restricted cash and cash and cash equivalent), which is subject to impairment under IFRS 9. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables, see Note 3.1(b) for details.

For others, it is measured as either 12-month expected credit losses 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.

2.10.4 Derecognition

Financial assets

The Group derecognizes a financial asset, if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows (“pass through” requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognized in profit or loss:

- the carrying amount of the financial asset transferred;
- the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognized directly in equity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability.

Other financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

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2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.12 Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of purchased inventory are determined after deducting rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.12.1 Contract fulfilment cost

The Group recognizes the inventory of contract fulfilment cost from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:

- the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;
- the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- the costs are expected to be recovered.

The contract fulfilment cost recognized shall be amortized to profit or loss on a systematic basis that is consistent with the transfer to the customer of the services to which the asset relates.

The Group recognizes an impairment loss in profit or loss to the extent that the carrying amount of contract fulfilment cost recognized exceeds:

- the remaining amount of consideration that the entity expects to receive in exchange for the services to which the asset relates; less
- the costs that relate directly to providing those services and that have not been recognized as expenses.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for products sold or services performed in the ordinary course of business. Majority of other receivables are deposits, loan to a third party and other receivable from a third party customer. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Group holds the trade and other receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. See Notes 2.10.3 and 3.1(b) for a description of the Group’s impairment policy for trade and other receivables.

2.14 Cash and cash equivalents and restricted cash

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash that is restricted from withdrawal, from use or from being pledged as security is reported separately on the face of the consolidated balance sheet, and is not included in the total cash and cash equivalents in the consolidated statement of cash flows.

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2.15 Paid-in capital/share capital and treasury stock

Ordinary shares and paid-in capital/share capital from owners are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Treasury stock is recorded to reflect the carrying amount of the redemption liabilities when it is initially reclassified from equity, and will be reversed when the redemption liabilities are derecognized upon when the Group’s obligations in connection with those redemption liabilities are discharged, cancelled or have expired which will then be reclassified back to equity (Note 2.19).

2.16 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Majority of other payables are payroll payables, amount collected on behalf of third parties, [REDACTED] expenses payables, other taxes payables and payable to a third party hardware supplier. Trade and other payables are classified as current liabilities if payment is due within one year (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.17 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.19 Redemption liabilities

A contract that contains an obligation to purchase the Group’s equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount, even if the Group’s obligations to purchase is conditional on the counterparty exercising a right to redeem. The Company undertakes such redemption obligations as certain preferred rights are granted to investors in the Company’s financing process, the redemption liabilities are recognized as financial liabilities initially at the present value of the redemption amount and reclassified from equity. Subsequently, the redemption liabilities are measured at amortized cost with interest charged in finance costs.

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The Group derecognizes the redemption liabilities when, and only when, the Group’s obligations are discharged, cancelled or have expired. When the preferred rights are waived by investors, the carrying amount of the redemption liability is reclassified to equity.

2.20 Current and deferred income tax

The income tax expense for the period comprises current and deferred income tax. Income tax is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the income tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associate operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred income tax liability in relation to taxable temporary differences arising from the associate’s undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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2.21 Employee benefits

(a) Pension obligations and other social welfare benefits

Full-time employees of the Group in mainland China are entitled to staff welfare benefits including pension, work-related injury benefits, maternity insurances, medical insurances, unemployment benefits and housing fund plans through a PRC government-mandated defined contribution plan. Chinese labor regulation requires that the Group make contributions to the government for these benefits based on certain percentage of the employees’ salaries, up to a maximum amount specified by the local government. The Group has no legal obligation for the benefits beyond the required contributions.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(c) Bonus plans

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

2.22 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates certain share incentive plans, under which it receives services from employees as consideration for equity instruments (“options”) of the Company. The fair value of the services received in exchange for the grant of the equity instruments is recognized as an expense on the consolidated statement of comprehensive income with a corresponding increase in equity.

In terms of the options awarded to employees, the total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

Service and non-marketing performance vesting conditions are included in calculation of the number of options that are expected to vest. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

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At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the service and non-marketing vesting performance conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

In some circumstances, employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in reserves will continue to be held in reserves.

(b) *Cash-settled share-based payment transactions*

The cost of cash-settled transactions is measured initially at fair value at the grant date. This fair value is with recognition of a corresponding liability. The liability is re-measured at each reporting date up to and at the date of settlement, with any changes in fair value recognized in profit or loss for the period. The Group did not have any cash-settled share-based payment during the Track Record Period.

(c) *Modifications*

Where the terms of the share-based payment plan are modified, the expense that is not yet recognized for the award is recognized over the remaining vesting period as if the terms had not been modified. If a modification increases the fair value of the equity instruments granted, the incremental fair value granted is included in the measurement of the amount recognized for the services received over the remainder of the vesting period. If the Group modifies the terms or conditions of its equity instruments granted in a manner that reduces the total fair value of the share-based payment arrangement, or is not otherwise beneficial to the employee, the Group shall nevertheless continue to account for the services received as consideration for the equity instruments granted as if that modification had not occurred.

2.23 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pretax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.24 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods sold or services supplied, stated net of discounts, returns and value-added taxes. The Group recognizes revenue when the specific criteria have been met for each of the Group’s activities, as described below.

(a) *Sage Platform and applications*

Sage Platform and other ready-to-use applications are delivered primarily as (i) licensed software installed at the end users’ servers, and (ii) all-in-one server or other related hardware with pre-installed software.

Revenue from delivering of (i) licensed software installed at the end users’ servers and (ii) all-in-one server or other related hardware with pre-installed software is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the application software and the all-in-one server or other related hardware. In other circumstance, Sage Platform and other ready-to-use applications are delivered to end users for usage with a subscription period, the revenue is recognized over the subscription period.

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(b) Application development and other services

Application development and other services consist of customized AI applications development, and other services primarily include AI-empowered precision marketing services which support enterprises to optimize marketing activities.

Application development services are recognized as revenue upon transfer of control to the customer of the promised products and services, generally on the acceptance of the integrated promised products and services by the customer.

The Group acts as an agent in AI-empowered precision marketing services considering the fact that the Group is only responsible for matching resources by using its AI technology, not subject to inventory risk and has no discretion in establishing prices. Therefore, revenue from AI-empowered precision marketing services is measured on a net basis. And the revenue is based on actual performance and accounted for as variable consideration, which is recognized when the performance is highly probable to be reached.

Contract balance

Timing of revenue recognition may differ from the timing of invoicing to customers. The Group may perform by transferring goods or services to a customer before the customer pays consideration or before payment is due, also may has a right to an amount of consideration before transferring goods or services to a customer. The Group recognizes a contract asset or a contract liability in the consolidated balance sheet, depending on the relationship between the Group’s performance and the customer’s payment.

2.25 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares; and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.26 Dividend income

Dividend income is recognized when the right to receive payment is established.

2.27 Leases

The Group assesses whether a contract is or contains a lease at inception of a contract. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease, and payments for these leases are presented in the consolidated statement of cash flows from operating activities.

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The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate specific to the country, term and currency of the contract. In addition, the Group considers its recent debt issuances as well as publicly available data for instruments with similar characteristics when calculating the incremental borrowing rates.

Lease payments include fixed payments, less any lease incentives, variable lease payments that depend on an index or a rate known at the commencement date, and purchase options or extension option payments if the Group is reasonably certain to exercise these options. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and right-of-use asset and are recognized as an expense in the consolidated statement of comprehensive income in the period in which the event or condition that triggers those payments occurs.

A lease liability is remeasured upon a change in the lease term, changes in an index or rate used to determine the lease payments or reassessment of exercise of a purchase option. The corresponding adjustment is made to the related right-of-use asset.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. The right-of-use assets are depreciated starting at the commencement date over the shorter period of useful life of the underlying asset and lease term.

The lease liability is presented in the ‘Lease liabilities’ line and the right-of-use assets are presented in the ‘Right-of-use assets’ line in the consolidated balance sheet. In addition, the principal portion of the lease payments and the interest component are presented within financing activities in the consolidated statement of cash flows.

2.28 Dividend distribution

Dividend distribution to the Company’s shareholders is recognized as a liability in the Group’s financial statements in the period in which the dividends are approved by the Company’s shareholders or directors, where appropriate.

2.29 Government grant

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the property and equipment and other non-current assets are included in the liabilities and are credited to consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

2.30 Interest income

Interest income from financial assets at fair value through profit or loss is included in the net fair value gains/(losses) on these assets. Interest income on financial assets at amortized cost and financial assets at FVOCI calculated using the effective interest method is recognized in profit or loss as part of other income. Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

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3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group’s financial performance. Risk management is carried out by the senior management of the Group.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk primarily arises from recognized assets and liabilities denominated in a currency other than the functional currency of entities comprising the Group. The Group operates mainly in the PRC with most of the transactions settled in RMB.

If RMB had strengthened/weakened by 5% against USD with all other variables held constant, the loss before income tax for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022 would have been approximately RMB2,573,000, RMB6,608,000, RMB3,053,000, RMB2,447,000 and RMB3,980,000 higher/lower, respectively, as a result of net foreign exchange losses on translation of net monetary assets denominated in USD.

(ii) Interest rate risk

The Group’s interest rate risk primarily arose from redemption liabilities, borrowings, term bank deposits and cash and cash equivalents. Those carried at floating rates expose the Group to cash flow interest rate risk whereas those carried at fixed rates expose the Group to fair value interest rate risk.

If the interest rate of cash and cash equivalents had been 50 basis points higher/lower, the loss before income tax for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022 would have been approximately RMB3,519,000, RMB5,260,000, RMB6,463,000, RMB4,908,000 and RMB7,105,000 lower/higher, respectively.

The Group regularly monitors its interest rate risk to ensure there is no undue exposure to significant interest rate movements.

(iii) Price risk

The Group is exposed to price risk in respect of the long-term investments and short-term investments held by the Group and classified in the balance sheet as at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. The investments are managed by management one by one, either for strategic purposes, or for the purpose of achieving investment yield and balancing the Group’s liquidity level simultaneously. The sensitivity analysis is performed by management, see Note 3.3 for details.

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, restricted cash, term bank deposits, short-term investments measured at fair value through profit or loss, trade receivables, other receivables and contract assets. The carrying amounts of each class of the above financial assets and contract assets represent the Group’s maximum exposure to credit risk in relation to financial assets and contract assets.

To manage risk arising from cash and cash equivalents, restricted cash, term bank deposits and short-term investments measured at fair value through profit or loss, the Group only transacts with state-owned or reputable financial institutions. There has been no recent history of default in relation to these financial institutions.

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To manage risk arising from trade receivables and contract assets, the Group has policies in place to ensure that sales with credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. The credit period granted to the customers is usually no more than 90 days and the credit quality of these customers are assessed by taking into account their financial position, past experience and other factors.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experiences. In view of the history of cooperation with debtors and the sound collection history of receivables due from them, management believes that the credit risk inherent in the Group’s outstanding other receivables balances due from them is low.

Impairment of financial assets and contract assets

The Group performs impairment assessment under the expected credit loss (“ECL”) model on financial assets at amortized cost (mainly including trade receivables and other receivables) and contract assets. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

While cash and cash equivalents, restricted cash and term bank deposits are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables and contract assets

For trade receivables and contract assets, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics, credit rating and aging periods. The expected loss rates are based on the historical payment profiles, historical credit loss rates by industry and data published by external credit rating institution, adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the gross domestic product (GDP), consumer price index (CPI) and broad money (M2) of mainland China in which it provides services to be the relevant factors, and accordingly adjusts the loss rates based on expected changes in those factors. Details of loss allowance of trade receivables and contract assets as at December 31, 2019, 2020 and 2021 and June 30, 2022 were included in Notes 21 and 6(a), respectively.

Other receivables

Other receivables mainly include deposits, loan to a third party and other receivable from a third party customer. The management of the Group makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experiences. The Group measures credit risk using Probability of Default (“PD”), Exposure at Default (“EAD”) and Loss Given Default (“LGD”). This is similar to the approach used for the purposes of measuring ECL under IFRS 9.

- Other receivables that are not credit-impaired on initial recognition are classified in ‘Stage 1’ and have their credit risk continuously monitored by the Group. The expected credit loss is measured on a 12-month basis.
- If a significant increase in credit risk (specifically, when the debtor is more than 30 day past due on its contractual payments) since initial recognition is identified, the financial instrument is moved to ‘Stage 2’ but is not yet deemed to be credit-impaired. The expected credit loss is measured on lifetime basis.
- If the financial instrument is credit-impaired (specifically, when the debtor is more than 90 days past due on its contractual payments), the financial instrument is then moved to ‘Stage 3’. The expected credit loss is measured on lifetime basis.

As there has been no significant increase in credit risk since initial recognition, all of the Group’s other receivables as at December 31, 2019, 2020 and 2021 and June 30, 2022 were classified in Stage 1 and their expected credit losses were measured on a 12-month basis.

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Write-off policy

Financial assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity. Where receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the policy of the Group is to regularly monitor the Group’s liquidity risk and to maintain adequate cash and cash equivalents or adjust financing arrangements to meet the Group’s liquidity requirements.

The table below analyzes the Group’s non-derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at each balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 year and 2 years	Between 2 years and 5 years	Over 5 years	Total contractual cash flows	Carrying amount liabilities
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Group						
At December 31, 2019						
Trade payables	15,231	–	–	–	15,231	15,231
Other payables (excluding payroll payables and other taxes payables)	47,704	–	–	–	47,704	47,704
Lease liabilities	29,182	22,586	17,967	–	69,735	65,566
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At December 31, 2020						
Trade payables	84,968	–	–	–	84,968	84,968
Other payables (excluding payroll payables and other taxes payables)	3,105	–	–	–	3,105	3,105
Lease liabilities	22,525	17,967	–	–	40,492	38,775
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At December 31, 2021						
Borrowings	3,752	–	15,000	–	18,752	18,752
Trade payables	321,357	–	–	–	321,357	321,357
Other payables (excluding payroll payables and other taxes payables)	68,844	–	–	–	68,844	68,844
Lease liabilities	25,525	6,308	5,096	–	36,929	35,364
Payable for acquisition of subsidiaries	40,930	30,465	50,465	–	121,860	106,306
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At June 30, 2022						
Borrowings	39,348	–	15,000	–	54,348	52,833
Trade payables	291,738	–	–	–	291,738	291,738
Other payables (excluding payroll payables and other taxes payables)	65,665	–	–	–	65,665	65,665
Lease liabilities	16,302	5,698	2,518	–	24,518	23,874
Payable for acquisition of subsidiaries	51,263	42,877	20,000	–	114,140	99,352
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

For redemption liabilities, please refer to Note 31 for more details.

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3.2 Capital management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders’ value in the long-term.

The Group monitors capital by regularly reviewing the capital structure. As a part of this review, the Group considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the number of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company’s shares. In the opinion of the directors of the Company, the Group’s capital risk is not significant.

The Group believes that cash flows from operating activities, available cash and cash equivalents as well as access to borrowing facilities, will be sufficient to fund capital expenditures, debt servicing, dividend payments and other cash requirements going forward.

3.3 Fair value estimation

The table below analyzes the Group’s financial instruments carried at fair value as at each balance sheet dates, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following tables present the Group’s assets or liabilities that are measured at fair value at December 31, 2019, 2020 and 2021 and June 30, 2022.

At December 31, 2019:

	Level 1	Level 2	Level 3	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Assets				
Long-term investments measured at fair value through profit or loss (<i>Note 19</i>)	–	–	7,754	7,754
Short-term investments measured at fair value through profit or loss (<i>Note 19</i>)	–	–	71,900	71,900
	<u>–</u>	<u>–</u>	<u>79,654</u>	<u>79,654</u>
Liabilities				
Financial liabilities at fair value through profit or loss (<i>Note 32</i>)	–	–	(18,135)	(18,135)
	<u>–</u>	<u>–</u>	<u>(18,135)</u>	<u>(18,135)</u>

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At December 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets				
Long-term investments measured at fair value through profit or loss (Note 19)	–	–	20,936	20,936
Short-term investments measured at fair value through profit or loss (Note 19)	–	–	174,408	174,408
	<u>–</u>	<u>–</u>	<u>195,344</u>	<u>195,344</u>

At December 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets				
Long-term investments measured at fair value through profit or loss (Note 19)	–	–	246,128	246,128
Short-term investments measured at fair value through profit or loss (Note 19)	–	–	2,535,763	2,535,763
	<u>–</u>	<u>–</u>	<u>2,781,891</u>	<u>2,781,891</u>

At June 30, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets				
Long-term investments measured at fair value through profit or loss (Note 19)	–	–	254,027	254,027
Short-term investments measured at fair value through profit or loss (Note 19)	–	–	1,851,429	1,851,429
	<u>–</u>	<u>–</u>	<u>2,105,456</u>	<u>2,105,456</u>

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The following table presents the changes in level 3 instruments of long-term investments measured at fair value through profit or loss for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022.

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
At the beginning of the year/period	2,793	7,754	20,936	20,936	246,128
Additions	5,000	7,300	225,800	3,800	23,992
Disposals	—	—	—	—	(17,304)
Changes in fair value	(39)	5,882	(608)	(111)	1,211
At the end of the year/period	<u>7,754</u>	<u>20,936</u>	<u>246,128</u>	<u>24,625</u>	<u>254,027</u>
Net unrealized (losses)/gains for the year/period	<u>(39)</u>	<u>5,882</u>	<u>(608)</u>	<u>(111)</u>	<u>907</u>

The following table presents the changes in level 3 instruments of short-term investments measured at fair value through profit or loss for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022.

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
At the beginning of the year/period	284,806	71,900	174,408	174,408	2,535,763
Additions	1,666,060	2,656,199	7,650,820	4,310,821	1,230,000
Disposals	(1,898,027)	(2,566,171)	(5,375,097)	(1,871,282)	(1,952,368)
Changes in fair value	19,061	12,480	85,632	40,614	38,034
At the end of the year/period	<u>71,900</u>	<u>174,408</u>	<u>2,535,763</u>	<u>2,654,561</u>	<u>1,851,429</u>
Net unrealized gains/(losses) for the year/period	<u>329</u>	<u>(7)</u>	<u>32,036</u>	<u>17,632</u>	<u>14,429</u>

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The following table presents the changes in level 3 instruments of financial liabilities at fair value through profit or loss for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022.

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
At the beginning of the year/period	(16,103)	(18,135)	–	–	–
Termination	–	19,023	–	–	–
Changes in fair value	(2,032)	(888)	–	–	–
At the end of the year/period	<u>(18,135)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Net unrealized losses for the year/period	<u>(2,032)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once every year, the team would use valuation techniques to determine the fair value of the Group’s level 3 instruments. External valuation experts were involved when necessary.

The valuation of the level 3 instruments mainly included long-term investments measured at fair value through profit or loss in unlisted equity securities, preferred shares and funds (Note 19), short-term investments measured at fair value through profit or loss in wealth management products (Note 19) and financial liabilities at fair value through profit or loss (Note 32). As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including discounted cash flows and market approach etc.

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

Description	Fair values				Significant unobservable inputs	Range of inputs				Relationship of unobservable inputs to fair values
	As at December 31,			As at June 30,		As at December 31,			As at June 30,	
	2019	2020	2021	2022		2019	2020	2021	2022	
	RMB'000	RMB'000	RMB'000	RMB'000						
Long-term investments measured at fair value through profit or loss:										
– Unlisted equity securities and preferred shares investments	–	9,804	36,065	45,472	Expected volatility	–	48.58%- 57.90%	48.80%- 59.33%	52.80%- 72.96%	The higher the expected volatility, the lower the fair value
					Discount for lack of Marketability (“DLOM”)	–	22.00%- 25.00%	21.00%- 25.00%	20.00%- 26.00%	The higher the DLOM, the lower the fair value
					Risk-free rate	–	2.69%- 2.71%	2.57%- 2.59%	2.47%- 2.52%	The higher the risk-free rate, the higher the fair value
– Fund investments (a)	7,754	11,132	210,063	208,555	N/A	N/A	N/A	N/A	N/A	N/A
	<u>7,754</u>	<u>20,936</u>	<u>246,128</u>	<u>254,027</u>						

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Description	Fair values				Significant unobservable inputs	Range of inputs				Relationship of unobservable inputs to fair values
	As at December 31,			As at June 30,		As at December 31,			As at June 30,	
	2019	2020	2021	2022		2019	2020	2021	2022	
	RMB'000	RMB'000	RMB'000	RMB'000						
Short-term investments measured at fair value through profit or loss:										
– Wealth management products	71,900	174,408	2,535,763	1,851,429	Expected rate of return	2.20%- 3.20%	2.38%- 3.42%	2.30%- 4.26%	2.30%- 4.00%	The higher the expected rate of return, the higher the fair value
Financial liabilities at fair value through profit or loss	(18,135)	–	–	–	Discount rate	11.26%- 11.57%	–	–	–	The higher the discount rate, the lower the fair value

Note:

- (a) The Group determines the fair values of its long-term fund investments as at the reporting date based on the reported net asset values of the respective funds as provided by fund managers.

If the fair values of the long-term investments and short-term investments measured at fair value through profit or loss held by the Group had been 0.5% higher/lower, the loss before income tax for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022 would have been approximately RMB398,000, RMB977,000, RMB13,909,000, RMB13,396,000 and RMB10,527,000 lower/higher, respectively.

If the fair values of the financial liabilities at fair value through profit or loss held by the Group had been 0.5% higher/lower, the loss before income tax for the year ended December 31, 2019 would have been approximately RMB91,000 higher/lower, respectively.

The Group believes that any reasonably possible change in assumptions used for the significant unobservable inputs would not significantly affect the profit or loss for the years/periods.

There were no transfers between level 1, 2 and 3 of fair value hierarchy classifications during the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022.

The carrying amounts of the Group’s financial assets that are not measured at fair value including cash and cash equivalents, restricted cash, term bank deposits, trade receivables and other receivables, and the Group’s financial liabilities that are not measured at fair value, including borrowings, lease liabilities, trade payables, other payables, redemption liabilities and payable for acquisition of subsidiaries, approximate their fair values due to their short maturities or the interest rates are close to the market interest rates.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgment in applying the Group’s accounting policies.

Estimates and judgments are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Fair value of financial assets and financial liabilities

Fair value of financial assets and financial liabilities, in the absence of an active market, is estimated by using appropriate valuation techniques. Such valuations were based on certain assumptions about credit risk, volatility and liquidity risks, associated with the instruments, which are subject to uncertainty and might materially differ from the actual results. Further details are included in Note 3.3 to the Historical Financial Information.

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(b) Impairment of goodwill

The Group tests whether goodwill has suffered any impairment on an annual basis. Judgment is required to identify any impairment indicators existing for any of the Group’s goodwill to determine appropriate impairment approaches, i.e., FVLCO or VIU, for impairment review purposes, and to select key assumptions applied in the adopted valuation models, including discounted cash flows and market approach. Changing the assumptions selected by management in assessing impairment could materially affect the result of the impairment test and in turn affect the Group’s financial condition and results of operations. If there is a significant adverse change in the key assumptions applied, it may be necessary to take additional impairment charge to the consolidated statement of comprehensive income.

(c) Business combinations

Business combinations are accounted for under the acquisition method. The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgment. Although the Group believes that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material.

(d) Credit loss allowance for trade receivables

The credit loss allowance for trade receivables are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group’s past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 3.1(b).

(e) Principal versus agent considerations

Determining whether the Group is acting as a principal or as an agent in the provision of certain services to its customers require judgment and consideration of all relevant facts and circumstances. In evaluation of the Group’s role as a principal or agent, the Group considers, individually or in combination, whether the Group (i) controls the specified good or service before it is transferred to the customer, (ii) is primarily responsible for fulfilling the contract, (iii) is subject to inventory risk, and (iv) has discretion in establishing prices.

(f) Valuation of share-based payments

The fair value of share options at the grant date and the incremental fair value upon modification are determined by using valuation techniques. Significant estimates on assumptions, such as risk-free interest rate, volatility, dividend yield and lack of marketability discount are made based on management’s best estimates. Further details are included in Note 26.

(g) Income taxes

Significant judgment is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional tax will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the year in which such determination is made.

For temporary differences or tax losses which give rise to deferred income tax assets, the Group assesses the likelihood that the deferred income tax assets could be recovered. Deferred income tax assets are recognized based on the Group’s estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

5 SEGMENT INFORMATION

The Group’s business activities are sales of Sage Platform and other ready-to-use applications and provision of application development and other services mainly in the PRC. The Group does not distinguish revenue, costs and expenses between segments in its internal reporting, and reports costs and expenses by nature as a whole.

The Group’s CODM has been identified as the Chief Executive Officer, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole and hence, the Group has only one reportable segment. The Group does not distinguish between markets or segments for the purpose of internal reports. As substantially all of the Group’s non-current assets are all located in the PRC and substantially all of the Group’s revenue are derived from the PRC, no geographical information is presented.

During the year ended December 31, 2019, revenue of approximately RMB94,449,000 was derived from a single external customer which accounted for more than 10% of the total revenue. For the years ended December 31, 2020 and 2021 and the six months ended June 30, 2021 and 2022, there was no revenue derived from transactions with a single external customer which amounted to 10% or more of the Group’s revenue.

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6 REVENUE

Disaggregation of revenue from contracts with customers:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i>
Sage Platform and applications	254,096	618,929	1,014,554	376,167	531,437
Application development and other services	205,422	323,309	1,003,845	412,038	526,787
	<u>459,518</u>	<u>942,238</u>	<u>2,018,399</u>	<u>788,205</u>	<u>1,058,224</u>

The Group derives revenue from the transfer of goods and services at a point in time and over time are analyzed as follows:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i>
Point in time	458,723	925,630	1,980,750	777,556	1,035,838
Over time	795	16,608	37,649	10,649	22,386
	<u>459,518</u>	<u>942,238</u>	<u>2,018,399</u>	<u>788,205</u>	<u>1,058,224</u>

(a) Contract assets

The Group has recognized the following assets related to contracts with customers:

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contract assets				
– Current portion	1,703	1,198	4,575	20,612
– Non-current portion	256	708	1,195	13,482
	<u>1,959</u>	<u>1,906</u>	<u>5,770</u>	<u>34,094</u>
Credit loss allowance	<u>(3)</u>	<u>(8)</u>	<u>(141)</u>	<u>(588)</u>
	<u>1,956</u>	<u>1,898</u>	<u>5,629</u>	<u>33,506</u>

Contract assets are generally the final payments of contracts relating to the customized AI applications development services which are due at the end of the quality assurance period (1 – 3 years). Contract assets are recorded as the Group has no right on these amounts of consideration when the revenue of customized AI applications development services is recognized.

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(b) Contract liabilities

The Group has recognized the following liabilities related to contracts with customers:

	As at December 31,			As at
	2019	2020	2021	June 30,
	RMB'000	RMB'000	RMB'000	2022
Contract liabilities	20,781	77,099	173,881	211,651

Contract liabilities of the Group mainly arise from the advance payments made by customers while the underlying services are yet to be provided. Due to the generally short-term duration of the relevant contracts, a majority of the contract liabilities are recognized in the following year.

The substantial increase in contract liabilities during the Track Record Period was due to an increase in overall contract activity, achievement from the Group’s business expansion and more contract orders secured (with prepayments made by customers).

The following table shows the revenue recognized in the current reporting year/period related to carried-forward contract liabilities:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue recognized that was included in the contract liabilities at the beginning of the year/period	8,606	20,781	73,128	60,601	133,186

7 OTHER INCOME

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Government grants	5,119	18,518	5,174	1,687	4,196
Value-added tax and other tax refunds	5,271	24,065	36,453	12,270	24,320
	10,390	42,583	41,627	13,957	28,516

Government grants primarily relate to grants in connection with the Group’s contributions to technology development and investments in local business districts. Those grants are not stipulated with any unfulfilled conditions or contingencies.

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8 OTHER GAINS, NET

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Fair value changes on financial assets at fair value through profit or loss					
– Unlisted equity securities	–	2,504	461	461	2,415
– Preferred shares investments	–	–	–	–	304
– Fund investments	(39)	3,378	(1,069)	(572)	(1,508)
– Wealth management products	19,061	12,480	85,632	40,614	38,034
Fair value changes on financial liabilities at fair value through profit or loss	(2,032)	(888)	–	–	–
Foreign exchange gains/(losses), net	860	(2,878)	(607)	496	2,306
Net gains on disposal/dilution of investments accounted for using the equity method (Note 17)	–	13,781	8,086	6,490	–
Others	(672)	1,227	1,011	(336)	558
	<u>17,178</u>	<u>29,604</u>	<u>93,514</u>	<u>47,153</u>	<u>42,109</u>

9 EXPENSES BY NATURE

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Employee benefit expenses (Note 10)	565,882	563,769	1,126,528	839,540	290,122
Technology service fees	209,184	446,308	1,336,218	540,363	696,452
Cost of finished goods sold	147,064	323,595	434,021	186,939	187,294
Advertising and marketing expenses	10,605	99,570	167,060	45,492	74,087
Depreciation and amortization					
– property and equipment	7,220	14,103	16,348	8,493	8,444
– right-of-use assets	15,636	27,430	25,958	11,849	13,406
– intangible assets	943	5,782	25,872	9,634	17,839
Cloud service and other technical service fees	27,091	42,303	67,097	24,100	21,596
Auditor’s remuneration	108	392	1,095	34	309
[REDACTED] expenses (Note 22(a)(iii))	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other professional fees	11,064	16,789	32,410	11,978	10,295
Business travel expenses	14,133	9,852	23,531	6,491	7,233
Credit loss allowance (Note (a))	1,875	1,992	15,206	5,761	257
Impairment provision for inventories (Note 20)	–	–	1,920	–	–
Others	27,224	22,606	52,410	15,549	21,462
	<u>1,038,029</u>	<u>1,574,491</u>	<u>3,326,346</u>	<u>1,706,223</u>	<u>1,405,170</u>

Note:

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- (a) Mainly include the credit loss allowance on trade receivables, contract assets and other receivables. Please refer to Notes 21, 6(a) and 22(a).

10 EMPLOYEE BENEFIT EXPENSES

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Wages, salaries and bonuses	275,609	337,858	431,240	204,071	263,817
Contributions to pension plans	23,349	15,323	34,466	14,997	23,597
Other social security costs, housing benefits and other employee benefits	33,735	35,955	54,705	20,907	27,975
Share-based payment expenses (Note 26)	233,232	173,665	603,634	603,634	–
	565,925	562,801	1,124,045	843,609	315,389
(Less)/add: capitalized in contract fulfilment cost	(43)	968	2,483	(4,069)	(25,267)
	565,882	563,769	1,126,528	839,540	290,122
Representing amounts charged to:					
– cost of sales	28,056	24,181	78,644	22,976	44,390
– selling and marketing expenses	110,811	131,605	246,384	179,703	77,443
– general and administrative expenses	188,444	196,907	465,013	412,271	59,430
– research and development expenses	238,571	211,076	336,487	224,590	108,859
	565,882	563,769	1,126,528	839,540	290,122

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include none of the directors or supervisors of the Company for the years ended December 31, 2019 and 2020 and the six months ended June 30, 2022 and include two directors of the Company for the year ended December 31, 2021 and the six months ended June 30, 2021, whose emoluments are reflected in the note (b) below. The emoluments payable to the five highest paid individuals, excluding the two highest paid directors for the year ended December 31, 2021 and the six months ended June 30, 2021, are as follows:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Wages, salaries and bonuses	8,764	11,031	3,977	1,807	8,000
Contributions to pension plans	141	81	76	33	130
Other social security costs, housing benefits and other employee benefits	289	310	194	66	197
Share-based payment expenses	150,598	126,964	92,417	92,417	–
	159,792	138,386	96,664	94,323	8,327

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The emoluments of the five highest paid individuals, excluding the two highest paid directors for the year ended December 31, 2021 and the six months ended June 30, 2021, fell within the following bands:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
				<i>(Unaudited)</i>	
Nil to HKD1,000,000	–	–	–	–	–
HKD1,500,001 to HKD2,000,000	–	–	–	–	3
HKD2,000,001 to HKD2,500,000	–	–	–	–	2
HKD4,500,001 to HKD5,000,000	–	1	–	–	–
HKD5,000,001 to HKD5,500,000	–	1	–	–	–
HKD8,500,001 to HKD9,000,000	–	1	–	–	–
HKD16,000,001 to HKD16,500,000	1	–	–	–	–
HKD17,500,001 to HKD18,000,000	1	–	–	–	–
HKD18,500,001 to HKD19,000,000	–	1	–	–	–
HKD23,500,001 to HKD24,000,000	1	–	–	–	–
HKD24,500,001 to HKD25,000,000	–	–	–	1	–
HKD25,000,001 to HKD25,500,000	–	–	1	–	–
HKD32,500,001 to HKD33,000,000	1	–	–	–	–
HKD33,000,001 to HKD33,500,000	–	–	–	1	–
HKD33,500,001 to HKD34,000,000	–	–	1	–	–
HKD55,000,001 to HKD55,500,000	–	–	–	1	–
HKD57,500,001 to HKD58,000,000	–	–	1	–	–
HKD91,500,001 to HKD92,000,000	1	–	–	–	–
HKD118,000,001 to HKD118,500,000	–	1	–	–	–
	<u>5</u>	<u>5</u>	<u>3</u>	<u>3</u>	<u>5</u>

(b) Benefits and interests of directors and supervisor

The remuneration of each director and supervisor of the Company for the year ended December 31, 2019 are set out as follows:

	Wages, salaries and bonuses	Contributions to pension plans	Other social security costs, housing benefits and other employee benefits	Share-based payment expenses	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive directors					
– Dai Wenyuan	969	50	77	–	1,096
– Chen Yuqiang	1,351	50	77	–	1,478
Non-executive directors					
– Wu Ming	95	50	77	–	222
– Yang Qiang	–	–	–	–	–
– Wang Hua	–	–	–	–	–
– Ji Yue	–	–	–	–	–
– Peng Zhijian	–	–	–	–	–
Supervisor					
– Hu Shiwei	1,350	50	77	–	1,477
	<u>3,765</u>	<u>200</u>	<u>308</u>	<u>–</u>	<u>4,273</u>

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The remuneration of each director and supervisor of the Company for the year ended December 31, 2020 are set out as follows:

	Wages, salaries and bonuses	Contributions to pension plans	Other social security costs, housing benefits and other employee benefits	Share-based payment expenses	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive directors					
– Dai Wenyuan	1,032	39	73	–	1,144
– Chen Yuqiang	2,167	39	73	–	2,279
Non-executive directors					
– Wu Ming	98	39	73	–	210
– Yang Qiang	–	–	–	–	–
– Wang Hua	–	–	–	–	–
– Ji Yue	–	–	–	–	–
– Peng Zhijian	–	–	–	–	–
Supervisor					
– Hu Shiwei	1,658	39	73	–	1,770
	<u>4,955</u>	<u>156</u>	<u>292</u>	<u>–</u>	<u>5,403</u>

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The remuneration of each director and supervisor of the Company for the year ended December 31, 2021 are set out as follows:

	Wages, salaries and bonuses	Contributions to pension plans	Other social security costs, housing benefits and other employee benefits	Share-based payment expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
– Dai Wenyuan	1,009	53	78	42,913	44,053
– Chen Yuqiang	1,890	53	78	3,086	5,107
– Yu Zhonghao (<i>Note (a)</i>)	1,632	14	52	57,936	59,634
Non-executive directors					
– Wu Ming (<i>Note (f)</i>)	50	25	1	–	76
– Yang Qiang	–	–	–	635	635
– Ji Yue (<i>Note (b)</i>)	–	–	–	–	–
– Wang Hua (<i>Note (c)</i>)	–	–	–	–	–
– Peng Zhijian (<i>Note (f)</i>)	–	–	–	–	–
– Neil Nanpeng Shen (<i>Note (d)</i>)	–	–	–	–	–
– Zhang Jing (<i>Note (e)</i>)	–	–	–	–	–
– Dou Shuai (<i>Note (e)</i>)	–	–	–	–	–
Independent non-executive directors					
– Li Jianbin (<i>Note (g)</i>)	–	–	–	–	–
– Liu Chijin (<i>Note (g)</i>)	–	–	–	–	–
– Hou Xiaodi (<i>Note (g)</i>)	–	–	–	–	–
– Ni Lionel Ming-shuan (<i>Note (g)</i>)	–	–	–	–	–
Supervisors					
– Hu Shiwei (<i>Note (h)</i>)	924	25	39	3,086	4,074
– Chai Yifei (<i>Note (i)</i>)	1,889	57	83	–	2,029
– Zhou Wenjing (<i>Note (i)</i>)	1,509	53	78	–	1,640
– Shao Liling (<i>Note (i)</i>)	623	53	78	–	754
	9,526	333	487	107,656	118,002

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The remuneration of each director and supervisor of the Company for the six months ended June 30, 2021 (Unaudited) are set out as follows:

	Wages, salaries and bonuses	Contributions to pension plans	Other social security costs, housing benefits and other employee benefits	Share-based payment expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
– Dai Wenyuan	504	25	39	42,913	43,481
– Chen Yuqiang	925	25	39	3,086	4,075
– Yu Zhonghao (Note (a))	730	–	18	57,936	58,684
Non-executive directors					
– Wu Ming	50	25	1	–	76
– Yang Qiang	–	–	–	635	635
– Ji Yue (Note (b))	–	–	–	–	–
– Wang Hua (Note (c))	–	–	–	–	–
– Peng Zhijian	–	–	–	–	–
– Neil Nanpeng Shen (Note (d))	–	–	–	–	–
– Zhang Jing (Note (e))	–	–	–	–	–
– Dou Shuai (Note (e))	–	–	–	–	–
Supervisor					
– Hu Shiwei	924	25	39	3,086	4,074
	3,133	100	136	107,656	111,025

The remuneration of each director and supervisor of the Company for the six months ended June 30, 2022 are set out as follows:

	Wages, salaries and bonuses	Contributions to pension plans	Other social security costs, housing benefits and other employee benefits	Share-based payment expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
– Dai Wenyuan	539	27	39	–	605
– Chen Yuqiang	1,048	27	39	–	1,114
– Yu Zhonghao	1,013	29	49	–	1,091
Non-executive directors					
– Yang Qiang	–	–	–	–	–
– Neil Nanpeng Shen (Note (d))	–	–	–	–	–
– Zhang Jing	–	–	–	–	–
– Dou Shuai	–	–	–	–	–
Independent non-executive directors					
– Li Jianbin	–	–	–	–	–
– Liu Chijin	–	–	–	–	–
– Hou Xiaodi (Note (g))	–	–	–	–	–
– Ni Lionel Ming-shuan (Note (g))	–	–	–	–	–
Supervisors					
– Chai Yifei	1,045	30	44	–	1,119
– Zhou Wenjing	961	27	39	–	1,027
– Shao Liling	364	27	39	–	430
	4,970	167	249	–	5,386

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Notes:

- (a) Mr. Yu Zhonghao was appointed as an executive director in February 2021.
- (b) Mr. Ji Yue resigned from the position of a non-executive director in April 2021.
- (c) Mr. Wang Hua resigned from the position of a non-executive director in February 2021.
- (d) Mr. Neil Nanpeng Shen was appointed as a non-executive director in April 2021 and tendered resignation from the position of non-executive director during the six months ended June 30, 2022.
- (e) Mr. Zhang Jing and Mr. Dou Shuai were appointed as non-executive directors in February 2021.
- (f) Ms. Wu Ming and Mr. Peng Zhijian resigned from the positions of non-executive directors in July 2021.
- (g) Mr. Li Jianbin, Mr. Liu Chijin, Dr. Hou Xiaodi and Dr. Ni Lionel Ming-shuan were appointed as independent non-executive directors in July 2021. Dr. Hou Xiaodi and Dr. Ni Lionel Ming-shuan tendered resignation from the positions of independent non-executive directors in June 2022 and July 2022, respectively.
- (h) Mr. Hu Shiwei resigned from the position of a supervisor in July 2021.
- (i) Mr. Chai Yifei, Ms. Zhou Wenjing and Ms. Shao Liling were appointed as supervisors in July 2021.

(c) Directors’ and supervisor’s termination benefits

No termination benefits were paid or payable to the directors or supervisor during the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022.

(d) Consideration provided to third parties for making available directors’ and supervisor’s services

No consideration provided to third parties for making available directors’ or supervisor’s services during the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022.

(e) Information about loans, quasi-loans and other dealings in favor of directors and supervisor, controlled body corporates by and connected entities with such directors and supervisor

No loans, quasi-loans and other dealings in favor of directors or supervisor, controlled body corporates by and connected entities with such directors or supervisor subsisted as at December 31, 2019, 2020 and 2021 and June 30, 2022.

(f) Directors’ and supervisor’s material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group’s business to which the Company was a party and in which a director or supervisor of the Company had a material interest, whether directly or indirectly, subsisted as at December 31, 2019, 2020 and 2021 and June 30, 2022.

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11 FINANCE INCOME AND FINANCE COSTS

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i>
Finance income:					
Interest income from bank deposits	497	2,709	24,416	6,909	17,148
Interest income from loan to a third party	1,886	3,329	–	–	–
	<u>2,383</u>	<u>6,038</u>	<u>24,416</u>	<u>6,909</u>	<u>17,148</u>
Finance costs:					
Interest expense on redemption liabilities (<i>Note 31</i>)	(162,513)	(186,240)	(638,682)	(328,414)	(323,546)
Interest expense on lease liabilities (<i>Note 14</i>)	(974)	(2,453)	(1,954)	(1,002)	(703)
Interest expense on borrowings	–	–	(713)	(317)	(93)
Amortized amounts on payable for acquisition of subsidiaries	–	–	(5,451)	–	(3,993)
Others	(448)	(285)	(311)	(45)	(135)
	<u>(163,935)</u>	<u>(188,978)</u>	<u>(647,111)</u>	<u>(329,778)</u>	<u>(328,470)</u>

12 INCOME TAX EXPENSES/(CREDIT)

The income tax expenses/(credit) of the Group for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022 are analyzed as follows:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i>
Current income tax	1,336	–	3,743	413	1,581
Deferred income tax	167	727	6,626	5,364	(6,123)
Income tax expenses/(credit)	<u>1,503</u>	<u>727</u>	<u>10,369</u>	<u>5,777</u>	<u>(4,542)</u>

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The tax on the Group’s loss before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to loss of the Group as follows:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB’000	RMB’000	RMB’000	RMB’000 (Unaudited)	RMB’000
Loss before income tax	(716,723)	(749,483)	(1,791,699)	(1,181,655)	(588,360)
Tax calculated at statutory income tax rate of 25% in mainland China (<i>Note (a)</i>)	(179,181)	(187,371)	(447,925)	(295,414)	(147,090)
Tax effects of:					
– Effect of lower tax rates in other jurisdictions (<i>Note (b), (c)</i>)	4,993	3,557	10,586	9,584	1,218
– Preferential income tax rate applicable to subsidiaries (<i>Note (d)</i>)	24,847	19,052	84,832	58,820	13,825
– Tax losses and temporary differences for which no deferred income tax assets was recognized	76,933	98,605	124,459	54,004	52,840
– Expenses not deductible for income tax purposes	80,334	75,148	264,611	187,401	83,811
– Super Deduction for research and development expenses (<i>Note (e)</i>)	(7,486)	(5,912)	(15,483)	(1,839)	(9,146)
– Impact of share of results and net gains on disposal/dilution of investments accounted for using the equity method	1,063	(2,345)	(3,147)	(1,405)	17
– Utilization of previously unrecognized tax losses	–	(7)	(7,564)	(5,374)	(17)
Income tax expenses/(credit)	<u>1,503</u>	<u>727</u>	<u>10,369</u>	<u>5,777</u>	<u>(4,542)</u>

Notes:

(a) Enterprise income tax in mainland China (“EIT”)

The income tax provision of the Group in respect of its operations in mainland China was calculated at tax rate of 25% on the assessable profits for the year presented, based on the existing legislation, interpretations and practices in respect thereof.

(b) Hong Kong income tax

The entity incorporated in Hong Kong is subject to Hong Kong profits tax of which the tax rate is 8.25% for assessable profits in the first HKD2 million and 16.5% for any assessable profits in excess of HKD2 million.

No provision for Hong Kong profits tax was made as the Group had no estimated assessable profit that was subject to Hong Kong profits tax during the Track Record Period.

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(c) Singapore income tax

Entities incorporated in Singapore are subject to Singapore income tax at a rate of 17% for taxable income earned in Singapore.

No provision for Singapore income tax was made as the Group had no estimated assessable profit that was subject to Singapore income tax during the Track Record Period.

(d) Preferential EIT Rate

Certain subsidiaries in mainland China are entitled to preferential EIT rate of 15%, mainly include the follows:

Fourth Paradigm (Beijing) Data & Technology Co., Ltd. was qualified as a “High and New Technology Enterprise” (“HNTE”) in December 2016 and renewed the qualification in December 2019, hence it enjoys a preferential income tax rate of 15% for six years from 2016 to 2021.

Guangzhou Jianxin Technology Co., Ltd. was qualified as a HNTE in December 2020 and hence it enjoys a preferential income tax rate of 15% for three years from 2020 to 2022.

Beijing Ideal Information Technology Co., Ltd. (formerly known as Changchun Ideal Technology Information Co., Ltd.) was qualified as a HNTE in September 2018 and renewed the qualification in September 2021, hence it enjoys a preferential income tax rate of 15% from 2018 to 2023.

EpicHust Technology (Wuhan) Co., Ltd., a subsidiary newly acquired in June 2022 (Note 34(c)), was qualified as a HNTE in December 2020 and hence it enjoys a preferential income tax rate of 15% for three years from 2020 to 2022.

Management considers that the above subsidiaries can be continued to be qualified as HNTEs upon renewal and hence will continue to enjoy the preferential income tax rate of 15% in the foreseeable future.

(e) Super Deduction for research and development expenses

The State Taxation Administration of the People’s Republic of China announced in September 2018 that enterprises engaging in research and development activities would entitle to claim 175% of their research and development expenses (“Super Deduction”) from January 1, 2018 to December 31, 2020, and announced in March 2021 to extend this preferential claim percentage to December 31, 2023. As announced in March 2022, technology-based small and medium-sized enterprises would entitle to claim 200% of their research and development expenses. The Group has made its best estimate for the Super Deduction to be claimed for the Group’s entities in ascertaining their assessable profits during the Track Record Period.

13 LOSS PER SHARE

The basic loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year/period. In determining the weighted average number of ordinary shares in issue, 400,000,000 shares issued on July 9, 2021, the date that the Company was converted into a joint stock company, are treated as if have been in issue since January 1, 2019, moreover, the contingently returnable shares, i.e. shares with preferred rights, are excluded from the calculation. The impact of excluded contingently returnable shares was 212,573,619 shares, 212,573,619 shares, 203,677,321 shares, 199,331,389 shares and 170,286,193 shares for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, respectively.

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Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As the Group incurred losses for the respective years/periods, the potential ordinary shares, i.e. shares with preferred rights, were not included in the calculation of diluted loss per share as their inclusion would be anti-dilutive. Accordingly, diluted loss per share for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022 are the same as basic loss per share of the respective years/periods.

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
				<i>(Unaudited)</i>	
Loss attributable to owners of the Company (RMB’000)	(716,576)	(749,650)	(1,785,655)	(1,184,970)	(566,743)
Weighted average number of ordinary shares in issue (thousand shares)	187,426	187,426	234,029	200,669	267,420
Basic and diluted loss per share for loss attributable to owners of the Company (expressed in RMB per share)	(3.82)	(4.00)	(7.63)	(5.91)	(2.12)

14 LEASES

The Group leases certain of its offices under operating lease arrangements, which are negotiated for terms ranging from 3 months to 3 years.

The consolidated balance sheets include the following amounts relating to leases:

(a) Right-of-use assets

The carrying amounts of the Group’s right-of-use assets and the movements during the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022 are as follows, respectively:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
				<i>(Unaudited)</i>	
At the beginning of the year/period	11,243	66,451	37,814	37,814	34,074
Additions	70,844	704	14,319	6,275	688
Acquisition of subsidiaries (Note 34)	–	–	7,899	7,899	174
Depreciation charge	(15,636)	(27,430)	(25,958)	(11,849)	(13,406)
Terminations	–	(1,911)	–	–	–
At the end of the year/period	<u>66,451</u>	<u>37,814</u>	<u>34,074</u>	<u>40,139</u>	<u>21,530</u>

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(b) Lease liabilities

The carrying amounts of the Group’s lease liabilities as at December 31, 2019, 2020 and 2021 and June 30, 2022 are as follows, respectively:

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Current	26,731	21,185	24,364	15,987
Non-current	38,835	17,590	11,000	7,887
	<u>65,566</u>	<u>38,775</u>	<u>35,364</u>	<u>23,874</u>

The consolidated statements of comprehensive income show the following amounts relating to leases:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Depreciation charge of right-of-use assets (Note 9)	15,636	27,430	25,958	11,849	13,406
Interest expense (Note 11)	974	2,453	1,954	1,002	703
Expense relating to short-term leases and variable lease payments not included in lease liabilities	<u>316</u>	<u>860</u>	<u>–</u>	<u>–</u>	<u>–</u>

The total cash outflows for leases during the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022 was RMB16,507,000, RMB27,039,000, RMB27,479,000, RMB12,584,000 and RMB13,062,000, respectively, including principal elements of lease payments of approximately RMB15,533,000, RMB24,586,000, RMB25,525,000, RMB11,582,000 and RMB12,359,000, respectively, and related interest paid of approximately RMB974,000, RMB2,453,000, RMB1,954,000, RMB1,002,000 and RMB703,000 during the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, respectively.

15 PROPERTY AND EQUIPMENT

The movement information of property and equipment during the Track Record Period is as below:

	Server and electronic equipment	Office equipment	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2019					
Cost	8,393	9,616	3,900	–	21,909
Accumulated depreciation	<u>(1,548)</u>	<u>(1,652)</u>	<u>(901)</u>	<u>–</u>	<u>(4,101)</u>
Net book amount	<u>6,845</u>	<u>7,964</u>	<u>2,999</u>	<u>–</u>	<u>17,808</u>

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	Server and electronic equipment	Office equipment	Leasehold improvements	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended December 31, 2019					
Opening net book amount	6,845	7,964	2,999	–	17,808
Additions	6,534	11,841	–	4,664	23,039
Transfer	–	–	1,939	(1,939)	–
Disposals	(159)	(516)	–	–	(675)
Depreciation charge (<i>Note 9</i>)	(3,440)	(2,552)	(1,228)	–	(7,220)
Closing net book amount	9,780	16,737	3,710	2,725	32,952
At December 31, 2019					
Cost	14,747	20,928	5,839	2,725	44,239
Accumulated depreciation	(4,967)	(4,191)	(2,129)	–	(11,287)
Net book amount	9,780	16,737	3,710	2,725	32,952
Year ended December 31, 2020					
Opening net book amount	9,780	16,737	3,710	2,725	32,952
Additions	6,448	7,743	–	14,845	29,036
Transfer	–	–	17,570	(17,570)	–
Disposals	(128)	(99)	–	–	(227)
Depreciation charge (<i>Note 9</i>)	(4,968)	(4,275)	(4,860)	–	(14,103)
Closing net book amount	11,132	20,106	16,420	–	47,658
At December 31, 2020					
Cost	20,919	28,457	23,409	–	72,785
Accumulated depreciation	(9,787)	(8,351)	(6,989)	–	(25,127)
Net book amount	11,132	20,106	16,420	–	47,658
Year ended December 31, 2021					
Opening net book amount	11,132	20,106	16,420	–	47,658
Additions	3,872	7,121	–	4,481	15,474
Acquisition of subsidiaries (<i>Note 34</i>)	965	1,017	3,237	–	5,219
Transfer	–	–	3,874	(3,874)	–
Disposals	(89)	(2,107)	–	–	(2,196)
Depreciation charge (<i>Note 9</i>)	(5,812)	(5,834)	(4,702)	–	(16,348)
Closing net book amount	10,068	20,303	18,829	607	49,807
At December 31, 2021					
Cost	25,252	34,282	30,520	607	90,661
Accumulated depreciation	(15,184)	(13,979)	(11,691)	–	(40,854)
Net book amount	10,068	20,303	18,829	607	49,807

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	Server and electronic equipment	Office equipment	Leasehold improvements	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(Unaudited)					
Six months ended June 30, 2021					
Opening net book amount	11,132	20,106	16,420	–	47,658
Additions	1,589	4,816	–	2,303	8,708
Acquisition of subsidiaries (Note 34)	965	1,017	3,237	–	5,219
Transfer	–	–	448	(448)	–
Disposals	(42)	(1,556)	–	–	(1,598)
Depreciation charge (Note 9)	(2,956)	(3,366)	(2,171)	–	(8,493)
Closing net book amount	10,688	21,017	17,934	1,855	51,494
At June 30, 2021					
Cost	23,066	32,093	27,094	1,855	84,108
Accumulated depreciation	(12,378)	(11,076)	(9,160)	–	(32,614)
Net book amount	10,688	21,017	17,934	1,855	51,494
Six months ended June 30, 2022					
Opening net book amount	10,068	20,303	18,829	607	49,807
Additions	2,627	1,506	1,498	269	5,900
Acquisition of subsidiaries (Note 34)	217	147	–	–	364
Transfer	–	–	259	(259)	–
Disposals	(4)	(6)	–	–	(10)
Depreciation charge (Note 9)	(2,462)	(2,737)	(3,245)	–	(8,444)
Closing net book amount	10,446	19,213	17,341	617	47,617
At June 30, 2022					
Cost	28,089	35,920	32,277	617	96,903
Accumulated depreciation	(17,643)	(16,707)	(14,936)	–	(49,286)
Net book amount	10,446	19,213	17,341	617	47,617

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Depreciation charges were expensed off in the following categories in the consolidated statements of comprehensive income:

	Year ended December 31,			Six months ended June 30,	
	2019 RMB'000	2020 RMB'000	2021 RMB'000	2021 RMB'000 (Unaudited)	2022 RMB'000
Research and development expenses	4,650	8,257	9,063	4,123	4,927
General and administrative expenses	1,851	4,479	5,539	3,335	2,615
Selling and marketing expenses	719	1,367	1,746	1,035	902
	<u>7,220</u>	<u>14,103</u>	<u>16,348</u>	<u>8,493</u>	<u>8,444</u>

16 INTANGIBLE ASSETS

	Goodwill	Software and copyright	Technology	Customer relationship	Brand name	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2019						
Cost	–	2,472	–	–	–	2,472
Accumulated amortization	–	(159)	–	–	–	(159)
Net book amount	<u>–</u>	<u>2,313</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,313</u>
Year ended December 31, 2019						
Opening net book amount	–	2,313	–	–	–	2,313
Additions	–	2,089	–	–	–	2,089
Amortization charge (Note 9)	–	(943)	–	–	–	(943)
Closing net book amount	<u>–</u>	<u>3,459</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,459</u>
At December 31, 2019						
Cost	–	4,561	–	–	–	4,561
Accumulated amortization	–	(1,102)	–	–	–	(1,102)
Net book amount	<u>–</u>	<u>3,459</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,459</u>
Year ended December 31, 2020						
Opening net book amount	–	3,459	–	–	–	3,459
Additions	–	22,239	–	–	–	22,239
Amortization charge (Note 9)	–	(5,782)	–	–	–	(5,782)
Closing net book amount	<u>–</u>	<u>19,916</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>19,916</u>

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	<u>Goodwill</u>	<u>Software and copyright</u>	<u>Technology</u>	<u>Customer relationship</u>	<u>Brand name</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At December 31, 2020						
Cost	–	26,800	–	–	–	26,800
Accumulated amortization	–	(6,884)	–	–	–	(6,884)
Net book amount	<u>–</u>	<u>19,916</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>19,916</u>
Year ended December 31, 2021						
Opening net book amount	–	19,916	–	–	–	19,916
Additions	–	5,673	–	–	–	5,673
Acquisition of subsidiaries (Note 34)	259,727	4,745	43,000	81,500	6,700	395,672
Amortization charge (Note 9)	–	(9,837)	(5,895)	(9,805)	(335)	(25,872)
Closing net book amount	<u>259,727</u>	<u>20,497</u>	<u>37,105</u>	<u>71,695</u>	<u>6,365</u>	<u>395,389</u>
At December 31, 2021						
Cost	259,727	37,218	43,000	81,500	6,700	428,145
Accumulated amortization	–	(16,721)	(5,895)	(9,805)	(335)	(32,756)
Net book amount	<u>259,727</u>	<u>20,497</u>	<u>37,105</u>	<u>71,695</u>	<u>6,365</u>	<u>395,389</u>
(Unaudited)						
Six months ended June 30, 2021						
Opening net book amount	–	19,916	–	–	–	19,916
Additions	–	1,069	–	–	–	1,069
Acquisition of subsidiaries (Note 34)	259,727	4,745	43,000	81,500	6,700	395,672
Amortization charge (Note 9)	–	(5,504)	(1,595)	(2,535)	–	(9,634)
Closing net book amount	<u>259,727</u>	<u>20,226</u>	<u>41,405</u>	<u>78,965</u>	<u>6,700</u>	<u>407,023</u>
At June 30, 2021						
Cost	259,727	32,614	43,000	81,500	6,700	423,541
Accumulated amortization	–	(12,388)	(1,595)	(2,535)	–	(16,518)
Net book amount	<u>259,727</u>	<u>20,226</u>	<u>41,405</u>	<u>78,965</u>	<u>6,700</u>	<u>407,023</u>

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	Goodwill	Software and copyright	Technology	Customer relationship	Brand name	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Six months ended						
June 30, 2022						
Opening net book amount	259,727	20,497	37,105	71,695	6,365	395,389
Additions	–	608	–	–	–	608
Acquisition of subsidiaries (Note 34)	76,074	339	5,300	15,700	–	97,413
Amortization charge (Note 9)	–	(5,934)	(4,300)	(7,270)	(335)	(17,839)
Closing net book amount	335,801	15,510	38,105	80,125	6,030	475,571
At June 30, 2022						
Cost	335,801	38,165	48,300	97,200	6,700	526,166
Accumulated amortization	–	(22,655)	(10,195)	(17,075)	(670)	(50,595)
Net book amount	335,801	15,510	38,105	80,125	6,030	475,571

Amortization charges were expensed off in the following categories in the consolidated statements of comprehensive income:

	Year ended December 31,			Six months ended	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
General and administrative expenses	943	3,709	6,280	3,455	5,524
Research and development expenses	–	2,073	9,486	3,644	4,365
Selling and marketing expenses	–	–	10,106	2,535	7,950
	943	5,782	25,872	9,634	17,839

Impairment of goodwill

The goodwill balance mainly arose from the acquisitions of Guangzhou Jianxin Technology Co., Ltd. (“Guangzhou Jianxin”) on March 31, 2021, Beijing Ideal Information Technology Co., Ltd. (“Ideal Technology”) on June 30, 2021 and EpicHust Technology (Wuhan) Co., Ltd. (“EpicHust”) on June 30, 2022, amounting to RMB94,088,000, RMB165,639,000 and RMB76,074,000 (Note 34), respectively. Guangzhou Jianxin and its subsidiaries are primarily engaged in provision of intelligent platform and solutions in energy and power industry. Ideal Technology is mainly engaged in provision of digital operation and maintenance platform and solutions. EpicHust and its subsidiaries are primarily engaged in provision of intelligent platform and solutions in manufacturing industry. Goodwill is attributable to the acquired market share and economies of scale expected to be derived from combining with the operations of the Group following these acquisitions.

The Group carries out its annual impairment test on goodwill by comparing the recoverable amounts of CGU or group of CGUs to the carrying amounts. Goodwill arising from the acquisition of Guangzhou Jianxin, Ideal Technology and EpicHust was monitored separately and assessed as separate CGUs for the purpose of impairment testing.

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CGU of Guangzhou Jianxin

The impairment reviews of the goodwill arising from Guangzhou Jianxin in March 2021 have been conducted by the management as at December 31, 2021 and June 30, 2022. For the purposes of the impairment review, the recoverable amount of the CGU of Guangzhou Jianxin is determined based on VIU calculations by using the discounted cash flow method. For goodwill related to acquisition of Guangzhou Jianxin, management forecasted that the revenue compound annual growth rate in the five-year period from the balance sheet date of December 31, 2021 and June 30, 2022 was 16.2% and 12.5%, respectively, and the cash flows beyond the five-year period were extrapolated using the estimated annual growth rates (“terminal growth rate”) of 3.0%. Pre-tax discount rate of 20.9% and 20.7% was used to reflect market assessment of time value and the specific risks relating to the CGU for the impairment review as at December 31, 2021 and June 30, 2022, respectively. The values assigned to the key assumptions and discount rates are consistent with external information sources. The estimated recoverable amount of the CGU of Guangzhou Jianxin exceeded its carrying amount by approximately RMB34,180,000 and RMB83,718,000 as at December 31, 2021 and June 30, 2022, respectively, and management therefore concluded such goodwill was not impaired. The directors of the Company have considered and assessed that any reasonably possible changes in key parameters would not cause the carrying amount of the CGU of Guangzhou Jianxin exceed its recoverable amount.

For sensitivity analysis conducted during the impairment review as at December 31, 2021, had there been a reduction of the revenue compound annual growth rate of the first five years by 4.3 percentage point, a reduction of terminal growth rate by 3.9 percentage point, or an increase in pre-tax discount rate by 1.5 percentage point in the VIU calculations each in isolation, the recoverable amount of the CGU of Guangzhou Jianxin would be closed to the breakeven point. For sensitivity analysis conducted during the impairment review as at June 30, 2022, had there been a reduction of the revenue compound annual growth rate of the first five years by 11.4 percentage point, a reduction of terminal growth rate by 17.9 percentage point, or an increase in pre-tax discount rate by 4.0 percentage point in the VIU calculations each in isolation, the recoverable amount of the CGU of Guangzhou Jianxin would be closed to the breakeven point.

CGU of Ideal Technology

The impairment reviews of the goodwill arising from Ideal Technology in June 2021 have been conducted by the management as at December 31, 2021 and June 30, 2022. For the purposes of the impairment review, the recoverable amount of the CGU of Ideal Technology is determined based on VIU calculations by using the discounted cash flow method. For goodwill related to acquisition of Ideal Technology, management forecasted that the revenue compound annual growth rate in the five-year period from the balance sheet date of December 31, 2021 and June 30, 2022 was 26.0% and 24.5%, respectively, and the cash flows beyond the five-year period were extrapolated using a terminal growth rate of 4.0%. Pre-tax discount rate of 17.6% was used to reflect market assessment of time value and the specific risks relating to the CGU for the impairment reviews as at December 31, 2021 and June 30, 2022. The values assigned to the key assumptions and discount rates are consistent with external information sources. The estimated recoverable amount of the CGU of Ideal Technology exceeded its carrying amount by approximately RMB34,793,000 and RMB52,518,000 as at December 31, 2021 and June 30, 2022, respectively, and management therefore concluded such goodwill was not impaired. The directors of the Company have considered and assessed that any reasonably possible changes in key parameters would not cause the carrying amount of the CGU of Ideal Technology exceed its recoverable amount.

For sensitivity analysis conducted during the impairment review as at December 31, 2021, had there been a reduction of the revenue compound annual growth rate of the first five years by 2.6 percentage point, a reduction of terminal growth rate by 1.4 percentage point, or an increase in pre-tax discount rate by 1.1 percentage point in the VIU calculations each in isolation, the recoverable amount of the CGU of Ideal Technology would be closed to the breakeven point. For sensitivity analysis conducted during the impairment review as at June 30, 2022, had there been a reduction of the revenue compound annual growth rate of the first five years by 4.2 percentage point, a reduction of terminal growth rate by 2.6 percentage point, or an increase in pre-tax discount rate by 1.8 percentage point in the VIU calculations each in isolation, the recoverable amount of the CGU of Ideal Technology would be closed to the breakeven point.

CGU of EpicHust

An impairment review of the goodwill arising from EpicHust in June 2022 has been conducted by the management as at June 30, 2022. For the purposes of the impairment review, the recoverable amount of the CGU of EpicHust is determined based on VIU calculations by using the discounted cash flow method. For goodwill related to acquisition of EpicHust, management forecasted that the revenue compound annual growth rate in the five-year period from the balance sheet date is 17.5%, and the cash flows beyond the five-year period were extrapolated using a terminal growth rate of 3.0%. Pre-tax discount rate of 20.3% was used to

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reflect market assessment of time value and the specific risks relating to the CGU. The values assigned to the key assumptions and discount rates are consistent with external information sources. The estimated recoverable amount of the CGU of EpicHust exceeded its carrying amount by approximately RMB1,937,000 as at June 30, 2022 and management therefore concluded such goodwill was not impaired. As the Group just acquired EpicHust on June 30, 2022 and the acquisition consideration was determined on an arm’s length basis, the directors of the Company considered that it is remote for any reasonably possible changes in key parameters that would exceed the percentage points as disclosed in the sensitivity analysis below and therefore concluded that any reasonably possible changes in those key parameters would not cause the carrying amount of the CGU of EpicHust exceed its recoverable amount.

For sensitivity analysis conducted during the impairment review, had there been a reduction of the revenue compound annual growth rate of the first five years by 0.2 percentage point, a reduction of terminal growth rate by 0.4 percentage point, or an increase in pre-tax discount rate by 0.2 percentage point in the VIU calculations each in isolation, the recoverable amount of the CGU of EpicHust would be closed to the breakeven point.

17 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	As at December 31,			As at June 30,	
	2019	2020	2021	2022	
	RMB'000	RMB'000	RMB'000	RMB'000	
Investments accounted for using the equity method					
– Associates	48,233	69,898	101,092	103,844	
– Joint ventures	20,124	16,740	14,081	13,260	
	<u>68,357</u>	<u>86,638</u>	<u>115,173</u>	<u>117,104</u>	
	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
At the beginning of the year/period	42,585	68,357	86,638	86,638	115,173
Additions	30,000	30,000	15,000	15,000	–
Disposals (Note (a))	–	(14,188)	–	–	–
Share of (losses)/profits	(4,228)	(6,477)	3,802	(1,878)	(717)
Share of other comprehensive income	–	–	9,160	–	2,648
Dividends	–	–	(7,513)	–	–
Increase in share of net assets due to the dilution gains (Note (b))	–	8,946	8,086	6,490	–
At the end of the year/period	<u>68,357</u>	<u>86,638</u>	<u>115,173</u>	<u>106,250</u>	<u>117,104</u>

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In the opinion of the directors of the Company, none of associates or joint ventures are individually material to the Group during the Track Record Period.

Notes:

- (a) In December 2020, the Group entered into an agreement with other shareholders of Shenzhen Huayun Information System Co., Ltd. (“Huayun”), an associate acquired in January 2018, pursuant to which, the Group and Huayun reached consensus that the Group’s unpaid contingent consideration of RMB20,000,000 was no longer to pay, and accordingly the equity interests held by the Group was reduced from 40.00% to 23.33%, which was deemed as a disposal with a net gain of RMB4,835,000 recognized (Note 8).
- (b) Dilution gains of RMB8,946,000 and RMB6,490,000 was recognized due to the assets or cash injected by Huayun’s controlling shareholder and new shareholders as their capital contributions to Huayun in December 2020 and January 2021, respectively. As a result, the equity interests held by the Group was further diluted to 15.56% and 12.97%, respectively. Huayun has still been measured as an associate as the Group has significant influence through the board representation and other relevant facts and circumstances, even though the Group’s equity interests in Huayun is below 20%.

Dilution gain of RMB1,596,000 was recognized due to the capital contribution injected by the new shareholders of Beijing Juyun Weizhi Information Technology Co., Ltd. (“Juyun”, an associate) in July 2021. As a result, the equity interests held by the Group was diluted from 4.35% to 3.81%. Juyun has been measured as an associate as the Group has significant influence through the board representation and other relevant facts and circumstances, even though the Group’s equity interests in Juyun is below 20%.

18 FINANCIAL INSTRUMENTS BY CATEGORY

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	RMB’000	RMB’000	RMB’000	RMB’000
Assets as per balance sheets				
Financial assets at fair value through profit or loss:				
– Wealth management products (Note 19)	71,900	174,408	2,535,763	1,851,429
– Unlisted equity securities (Note 19)	–	9,804	19,065	21,480
– Preferred shares investments (Note 19)	–	–	17,000	23,992
– Fund investments (Note 19)	7,754	11,132	210,063	208,555
Financial assets at amortized cost:				
– Trade receivables (Note 21)	179,210	262,699	778,321	803,321
– Prepayments and other receivables (excluding prepayments to suppliers, deductible value-added input tax and [REDACTED] expenses to be capitalized) (Note 22 (a))	148,572	21,180	78,829	83,627
– Long-term bank deposits (Note 23 (c))	–	–	510,203	620,447
– Short-term bank deposits (Note 23 (c))	–	95,602	20,000	20,000
– Restricted cash (Note 23 (b))	336	18,201	8,010	7,213
– Cash and cash equivalents (Note 23 (a))	703,786	1,052,073	1,292,686	1,420,922
	<u>1,111,558</u>	<u>1,645,099</u>	<u>5,469,940</u>	<u>5,060,986</u>

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	As at December 31,			As at June 30,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Liabilities as per balance sheets				
Financial liabilities at fair value through profit or loss:				
– Contingent consideration to acquire an associate (<i>Note 32</i>)	18,135	–	–	–
Financial liabilities at amortized cost:				
– Trade payables (<i>Note 27</i>)	15,231	84,968	321,357	291,738
– Other payables and accruals (excluding payroll payables and other taxes payables) (<i>Note 28</i>)	47,704	3,105	68,844	65,665
– Borrowings (<i>Note 30</i>)	–	–	18,752	52,833
– Redemption liabilities (<i>Note 31</i>)	1,528,181	2,147,031	5,822,196	6,145,742
– Payable for acquisition of subsidiaries (<i>Note 33</i>)	–	–	106,306	99,352
Lease liabilities (<i>Note 14</i>)	65,566	38,775	35,364	23,874
	<u>1,674,817</u>	<u>2,273,879</u>	<u>6,372,819</u>	<u>6,679,204</u>

19 INVESTMENTS

Group

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Long-term investments measured at fair value through profit or loss				
– Unlisted equity securities (i)	–	9,804	19,065	21,480
– Preferred shares investments (ii)	–	–	17,000	23,992
– Fund investments (iii)	7,754	11,132	210,063	208,555
	<u>7,754</u>	<u>20,936</u>	<u>246,128</u>	<u>254,027</u>
Current assets				
Short-term investments measured at fair value through profit or loss				
– Wealth management products (iv)	71,900	174,408	2,535,763	1,851,429
	<u>71,900</u>	<u>174,408</u>	<u>2,535,763</u>	<u>1,851,429</u>

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(i) Unlisted equity securities

The following table presents the changes in long-term investments in unlisted equity securities measured at fair value through profit or loss for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022.

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
At the beginning of the year/period	–	–	9,804	9,804	19,065
Additions	–	7,300	8,800	3,800	–
Changes in fair value	–	2,504	461	461	2,415
At the end of the year/period	<u>–</u>	<u>9,804</u>	<u>19,065</u>	<u>14,065</u>	<u>21,480</u>

(ii) Preferred shares investments

The preferred shares investments in the investee are ordinary shares with preferential rights. The Group has the right to require and demand the investees to redeem all of the shares held by the Group at guaranteed predetermined fixed amount upon redemption events which are out of control of issuers. Hence, these investments are accounted for as debt instruments and are measured at financial assets at fair value through profit or loss. These investments are within level 3 of the fair value hierarchy (Note 3.3).

(iii) Fund investments

The Group invested in funds which focus on equity investment in unlisted companies. The returns of the funds are not guaranteed and their contractual cash flows do not qualify for solely payments of principal and interest, hence they are measured at fair value through profit or loss. The Group determines the fair values of the fund investments as at the reporting date based on the reported net asset values of the funds. These investments are within level 3 of the fair value hierarchy (Note 3.3).

On September 17, 2021, Beijing Paradigm Artificial Intelligence Equity Investment Fund (Limited Partnership) (“Paradigm Fund”) was incorporated in Beijing, PRC. Fourth Paradigm (Shenzhen) Data & Technology Co., Ltd., the Company’s wholly owned subsidiary, as a limited partner, paid RMB200,000,000 (40% of the total capital contribution) on December 13, 2021. The Group has significant influence through its representation on the investment committee of Paradigm Fund and elected to measure the investment in Paradigm Fund at fair value through profit or loss in accordance with IFRS 9.

(iv) Wealth management products

The wealth management products are all denominated in RMB (except for the investments of approximately RMB35,203,000 as at December 31, 2019 which were denominated in USD) and have expected rates of return ranging from 2.20% to 3.85%, 1.63% to 6.25%, 2.20% to 4.74%, 2.60% to 4.30% and 2.20% to 4.00% per annum for the years ended December 31, 2019, 2020 and 2021 and six months ended June 30, 2021 and 2022, respectively. The returns on all these wealth management products are not guaranteed and their contractual cash flows do not qualify for solely payments of principal and interest, hence they are measured at fair value through profit or loss. None of these investments are past due.

The fair values are based on cash flows discounted using the expected return as estimated by management and are within level 3 of the fair value hierarchy (Note 3.3).

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(v) Gains/(losses) recognized in profit or loss

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Fair value changes on long-term investments measured at fair value through profit or loss	(39)	5,882	(608)	(111)	1,211
Fair value changes on short-term investments measured at fair value through profit or loss	19,061	12,480	85,632	40,614	38,034
	<u>19,022</u>	<u>18,362</u>	<u>85,024</u>	<u>40,503</u>	<u>39,245</u>

Company

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Current asset				
Short-term investments measured at fair value through profit or loss				
– Wealth management products	<u>50,431</u>	<u>58,066</u>	<u>1,036,180</u>	<u>357,645</u>

20 INVENTORIES

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Finished goods	2,884	3,187	20,633	26,232
Contract fulfilment cost	<u>18,125</u>	<u>24,999</u>	<u>165,786</u>	<u>209,478</u>
	21,009	28,186	186,419	235,710
Less: provision for impairment	<u>–</u>	<u>–</u>	<u>(1,920)</u>	<u>(745)</u>
	<u>21,009</u>	<u>28,186</u>	<u>184,499</u>	<u>234,965</u>

Finished goods are mainly server products to be delivered to customers with a quick turnover. Contract fulfilment cost are recognized from the costs incurred to fulfil contracts of customized AI applications development services, which will be recognized to cost of sales mainly within 3-6 months when the Group’s related performance obligations are satisfied and hence the related service contract revenue is recognized.

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Provision for impairment was recognized for the amount by which the carrying amount of the inventories exceeds its net realizable value and was recorded in “cost of sales” in the consolidated statements of comprehensive income. Provision for impairment movements for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022 are as below:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
At the beginning of the year/period	–	–	–	–	(1,920)
Provision for impairment	–	–	(1,920)	–	–
Written off upon the related performance obligations satisfied	–	–	–	–	1,175
At the end of the year/period	–	–	(1,920)	–	(745)

21 TRADE RECEIVABLES

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Third parties	178,880	266,643	796,261	819,950
Related parties	3,581	1,366	2,221	2,054
	182,461	268,009	798,482	822,004
Less: credit loss allowance	(3,251)	(5,310)	(20,161)	(18,683)
	179,210	262,699	778,321	803,321

The carrying amounts of the Group’s trade receivables are mainly denominated in RMB.

Movements on the Group’s credit loss allowance for trade receivables are as follows:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
At the beginning of the year/period	(1,517)	(3,251)	(5,310)	(5,310)	(20,161)
Credit loss allowance (recognized)/reversed, net	(1,734)	(2,059)	(14,851)	(5,632)	161
Receivables written off as uncollectable	–	–	–	–	1,317
At the end of the year/period	(3,251)	(5,310)	(20,161)	(10,942)	(18,683)

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The Group generally allows a credit period within 90 days to its customers. Aging analysis of trade receivables based on invoice date is as follows:

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables				
Up to 3 months	104,818	126,601	403,264	344,562
3 to 6 months	43,855	87,412	231,336	125,929
6 months to 1 year	33,107	24,432	128,141	260,917
Over 1 year	681	29,564	35,741	90,596
	<u>182,461</u>	<u>268,009</u>	<u>798,482</u>	<u>822,004</u>

The credit loss allowance of trade receivables as at December 31, 2019, 2020 and 2021 and June 30, 2022 were determined as follows:

	As at December 31, 2019		
	Gross carrying amount	Expected credit loss rate	Credit loss allowance
	<i>in thousands, except for percentages</i>		
For credit loss allowance measured individually	<u>57,855</u>	<u>1.13%</u>	<u>655</u>
For credit loss allowance measured by industry			
– Telecommunication, computer and software	16,604	3.68%	611
– Education, science and technology	85,550	1.06%	909
– Wholesale and retail	11,706	8.49%	994
– Others	<u>10,746</u>	<u>0.76%</u>	<u>82</u>
	<u>124,606</u>	<u>2.08%</u>	<u>2,596</u>
	<u>182,461</u>	<u>1.78%</u>	<u>3,251</u>

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As at December 31, 2020			
	Gross carrying amount	Expected credit loss rate	Credit loss allowance
<i>in thousands, except for percentages</i>			
For credit loss allowance measured individually	54,109	3.61%	1,951
For credit loss allowance measured by industry			
– Telecommunication, computer and software	31,549	2.24%	707
– Education, science and technology	156,871	0.94%	1,482
– Wholesale and retail	19,497	5.66%	1,103
– Others	5,983	1.12%	67
	213,900	1.57%	3,359
	268,009	1.98%	5,310
As at December 31, 2021			
	Gross carrying amount	Expected credit loss rate	Credit loss allowance
<i>in thousands, except for percentages</i>			
For credit loss allowance measured individually	73,347	2.83%	2,076
For credit loss allowance measured by industry			
– Telecommunication, computer and software	169,239	1.35%	2,282
– Education, science and technology	196,850	1.67%	3,286
– Wholesale and retail	56,814	4.58%	2,602
– Leasing and business services	62,510	0.68%	428
– Manufacturing	38,279	4.56%	1,744
– Others	19,476	1.33%	259
	543,168	1.95%	10,601
For credit loss allowance measured by aging			
– Up to 1 year	153,311	2.98%	4,566
– 1 year to 2 years	25,388	6.46%	1,640
– Over 2 years	3,268	39.11%	1,278
	181,967	4.11%	7,484
	798,482	2.52%	20,161

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	As at June 30, 2022		
	Gross carrying amount	Expected credit loss rate	Credit loss allowance
	<i>in thousands, except for percentages</i>		
For credit loss allowance measured individually	107,835	0.44%	479
For credit loss allowance measured by industry			
– Telecommunication, computer and software	263,833	1.60%	4,219
– Education, science and technology	156,484	1.89%	2,954
– Wholesale and retail	17,049	4.59%	783
– Leasing and business services	25,493	0.71%	182
– Manufacturing	16,797	4.55%	765
– Others	12,532	1.57%	197
	492,188	1.85%	9,100
For credit loss allowance measured by aging			
– Up to 1 year	176,661	2.37%	4,194
– 1 year to 2 years	35,751	4.30%	1,539
– Over 2 years	9,569	35.23%	3,371
	221,981	4.10%	9,104
	822,004	2.27%	18,683

22 PREPAYMENTS AND OTHER RECEIVABLES AND AMOUNTS DUE FROM SUBSIDIARIES

(a) Prepayments and other receivables

Group

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments to suppliers	64,069	130,061	100,861	133,914
Deductible value-added input tax	6,564	18,739	46,631	51,608
Rental, bidding and other deposits	10,566	9,034	16,454	17,607
Loan to a third party (Note (i))	134,882	–	–	–
Interest receivables	1,886	7,027	2,722	–
[REDACTED] expenses to be capitalized (Note (iii))	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other receivable from a third party customer (Note (ii))	–	–	50,959	50,942
Others	1,238	5,119	8,694	15,078
	219,205	169,980	272,002	288,047

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As at December 31, 2019, 2020 and 2021 and June 30, 2022, the carrying amounts of other receivables were primarily denominated in RMB and approximated their fair values at each of the reporting dates. Other receivables that are measured at amortized cost including deposits, loan to a third party and other receivable from a third party customer were considered to be of low credit risk, and thus the impairment provision recognized during the Track Record Period was limited to 12 months expected losses.

Notes:

- (i) The loan to a third party as at December 31, 2019 was a one-year term loan with an interest rate at 3.86% per annum.
- (ii) During the year ended December 31, 2021, the Group cooperated with a hardware supplier to deliver software and hardware together to a customer. Pursuant to the sales agreement with the customer, the Group only acts as an agent for purchasing certain hardware (the “hardware component”) on behalf of the customer while acts as a principal in delivering the software to the customer. As at December 31, 2021, the entire project was completed and both the Group and the hardware supplier had fulfilled their performance obligations under the respective sales and purchase contracts. Therefore, the Group’s amounts recoverable from the customer and the Group’s amounts payable to the hardware supplier in connection with the hardware component have been recognized as other receivables and other payables (Note 28), respectively in the consolidated balance sheet. As at June 30, 2022, the other receivables and other payables have not been settled.
- (iii) In accordance with the Guidelines on Application for “Full Circulation” of Domestic Unlisted Shares of H-share Companies published and implemented by the China Securities Regulatory Commission (the “CSRC”) on November 14, 2019, the issued domestic unlisted shares of any H-share companies could only be listed and traded on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) subsequent to the CSRC’s approval.

The Company had no intention and did not file any application for a “full circulation” of its domestic unlisted shares until March 2022. On March 29, 2022, the Company filed an application to the CSRC for a “full circulation” of its domestic unlisted shares which was approved by the CSRC on June 14, 2022. Upon completion of the initial [REDACTED] of the Company’s shares on the Stock Exchange and the [REDACTED], certain of the Company’s domestic unlisted shares (representing approximately 17.07% of the Company’s shares in issue) will be converted into H shares and to be [REDACTED] and [REDACTED] on the Stock Exchange.

The CSRC’s approval on the “full circulation” of the Company’s domestic unlisted shares and the resultant change in the Company’s capital structure upon [REDACTED] are considered as non-adjusting events subsequent to the year ended December 31, 2021. The Company adjusted the portion of [REDACTED] expenses eligible for capitalization prospectively in the six months ended June 30, 2022 without adjusting the accounting estimates previously made before December 31, 2021.

Company

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
[REDACTED] expenses to be capitalized	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Others	501	996	5,133	6,347
	501	996	50,814	25,245

(b) Amounts due from subsidiaries

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

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23 CASH AND BANK BALANCES

(a) Cash and cash equivalents

Cash and cash equivalents are denominated in the following currencies:

Group

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	699,656	950,133	1,288,283	1,417,203
USD	2,552	100,758	3,971	1,830
HKD	1,016	714	310	606
SGD	562	408	111	1,275
EUR	–	60	11	8
	<u>703,786</u>	<u>1,052,073</u>	<u>1,292,686</u>	<u>1,420,922</u>

Company

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	383,022	872,928	575,006	685,102
USD	33	97,905	13	14
	<u>383,055</u>	<u>970,833</u>	<u>575,019</u>	<u>685,116</u>

(b) Restricted cash

Restricted cash are denominated in the following currencies:

Group

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	<u>336</u>	<u>18,201</u>	<u>8,010</u>	<u>7,213</u>

As at December 31, 2019, 2020 and 2021 and June 30, 2022, restricted cash held at bank as security deposits mainly for bidding, issuance of letter of guarantee or bank acceptance bills.

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(c) Term bank deposits

Term bank deposits are all denominated in RMB:

Group

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Short-term bank deposits	–	95,602	20,000	20,000
Long-term bank deposits	–	–	510,203	620,447
	–	95,602	530,203	640,447

Short-term bank deposits are bank deposits with original maturities over three months but within twelve months and redeemable on maturity. Long-term bank deposits are bank deposits with original maturities over twelve months and redeemable on maturity. The effective interest rates for the short-term bank deposits were 2.28% per annum, 1.98% to 2.28% per annum and 2.28% to 2.30% per annum for the years ended December 31, 2020 and 2021 and the six months ended June 30, 2022, respectively. The effective interest rate for the long-term bank deposits was 3.80% per annum and 3.80% to 3.90% per annum for the year ended December 31, 2021 and the six months ended June 30, 2022, respectively.

24 SHARE CAPITAL/PAID-IN CAPITAL

(a) Paid-in capital

Paid-in capital are generated from founders’ and investors’ capital injection. The excess of total consideration raised over paid-in capital was credited to the Company’s capital reserve (Note 25).

(b) Share capital

	Number of ordinary shares	Nominal value of ordinary shares
		RMB'000
Authorized and issued:		
At January 1, 2021	–	–
Issuance of ordinary shares upon conversion into a joint stock company (Note (i))	400,000,000	400,000
Capital contribution from shareholders (Note (ii))	37,705,989	37,706
At December 31, 2021 and June 30, 2022	437,705,989	437,706

Notes:

- (i) On July 9, 2021, the Company was converted into a joint stock company with limited liability under the Company Law of the PRC. The net assets of the Company as at May 31, 2021, the conversion base date, amounting to approximately RMB954,290,000 were converted into 400,000,000 ordinary shares at RMB1 each, share capital of RMB400,000,000 was recorded accordingly.
- (ii) After the conversion into a joint stock company, the Company completed its Series D+ and Series D+2 financing and the foreign exchange registration procedures for the Series D financing, the share capital of the Company has then been increased by approximately RMB37,706,000 accordingly (with a total number of 37,705,989 ordinary shares being issued).

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25 TREASURY STOCK AND RESERVES

Group

	Reserves					Total
	Treasury stock	Capital reserve	Share-based payment reserve	Currency translation reserve	Other reserve	
	(Note (a))	(Note 24)	(Note 26)	(Note (b))		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2019	(557,618)	673,402	216,821	7	–	890,230
Currency translation differences	–	–	–	(279)	–	(279)
Capital contribution from shareholders	–	853,711	–	–	–	853,711
Recognition of redemption liabilities	(755,996)	–	–	–	–	–
Share-based payments	–	–	233,232	–	–	233,232
Balance at December 31, 2019	<u>(1,313,614)</u>	<u>1,527,113</u>	<u>450,053</u>	<u>(272)</u>	<u>–</u>	<u>1,976,894</u>
Balance at January 1, 2020	(1,313,614)	1,527,113	450,053	(272)	–	1,976,894
Currency translation differences	–	–	–	1,451	–	1,451
Capital contribution from shareholders	–	476,242	–	–	–	476,242
Recognition of redemption liabilities	(432,610)	–	–	–	–	–
Share-based payments	–	–	173,665	–	–	173,665
Balance at December 31, 2020	<u>(1,746,224)</u>	<u>2,003,355</u>	<u>623,718</u>	<u>1,179</u>	<u>–</u>	<u>2,628,252</u>
Balance at January 1, 2021	(1,746,224)	2,003,355	623,718	1,179	–	2,628,252
Currency translation differences	–	–	–	1,837	–	1,837
Capital contribution from shareholders (Note (c))	–	5,000,884	–	–	–	5,000,884
Conversion into a joint stock company	–	(1,644,690)	(49,938)	–	–	(1,694,628)
Recognition of redemption liabilities	(4,848,767)	–	–	–	–	–
Derecognition of redemption liabilities	1,696,897	115,387	–	–	–	115,387
Share-based payments	–	–	582,942	–	–	582,942
Share of other comprehensive income of investments accounted for using the equity method	–	–	–	–	9,160	9,160
Balance at December 31, 2021	<u>(4,898,094)</u>	<u>5,474,936</u>	<u>1,156,722</u>	<u>3,016</u>	<u>9,160</u>	<u>6,643,834</u>

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	Reserves					Total
	Treasury stock	Capital reserve	Share-based payment reserve	Currency translation reserve	Other reserve	
	(Note (a))	(Note 24)	(Note 26)	(Note (b))		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)						
Balance at January 1, 2021	(1,746,224)	2,003,355	623,718	1,179	–	2,628,252
Currency translation differences	–	–	–	814	–	814
Capital contribution from shareholders	–	4,233,351	–	–	–	4,233,351
Recognition of redemption liabilities	(4,059,918)	–	–	–	–	–
Derecognition of redemption liabilities	1,696,897	115,387	–	–	–	115,387
Share-based payments	–	–	582,942	–	–	582,942
Balance at June 30, 2021	<u>(4,109,245)</u>	<u>6,352,093</u>	<u>1,206,660</u>	<u>1,993</u>	<u>–</u>	<u>7,560,746</u>
Balance at January 1, 2022	(4,898,094)	5,474,936	1,156,722	3,016	9,160	6,643,834
Currency translation differences	–	–	–	(2,160)	–	(2,160)
Share of other comprehensive income of investments accounted for using the equity method	–	–	–	–	2,648	2,648
Balance at June 30, 2022	<u>(4,898,094)</u>	<u>5,474,936</u>	<u>1,156,722</u>	<u>856</u>	<u>11,808</u>	<u>6,644,322</u>

Notes:

- (a) Treasury stock is recorded to reflect the carrying amount of the redemption liabilities when it is reclassified from equity (Note 31).
- (b) Currency translation reserve represents the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from the presentation currency of RMB for the financial statements of the Company and the Group.
- (c) During the year ended December 31, 2021, the Company completed its Series D, Series D+ and Series D+2 financing and the total net proceeds raised in excess of the nominal value of the paid-in capital/share capital issued of approximately RMB5,000,884,000 has been credited to the Company’s capital reserve.

Company

	Reserves				Total
	Treasury stock	Capital reserve	Share-based payment reserve	Other reserve	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2019	(557,618)	673,402	4,569	–	677,971
Capital contribution from shareholders	–	853,711	–	–	853,711
Recognition of redemption liabilities	(755,996)	–	–	–	–
Share-based payments	–	–	1,684	–	1,684
Balance at December 31, 2019	<u>(1,313,614)</u>	<u>1,527,113</u>	<u>6,253</u>	<u>–</u>	<u>1,533,366</u>

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	Reserves				
	Treasury stock	Capital reserve	Share-based payment reserve	Other reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2020	(1,313,614)	1,527,113	6,253	–	1,533,366
Capital contribution from shareholders	–	476,242	–	–	476,242
Recognition of redemption liabilities	(432,610)	–	–	–	–
Share-based payments	–	–	522	–	522
Balance at December 31, 2020	<u>(1,746,224)</u>	<u>2,003,355</u>	<u>6,775</u>	<u>–</u>	<u>2,010,130</u>
Balance at January 1, 2021	(1,746,224)	2,003,355	6,775	–	2,010,130
Capital contribution from shareholders	–	5,000,884	–	–	5,000,884
Conversion into a joint stock company	–	(1,644,690)	(49,938)	–	(1,694,628)
Recognition of redemption liabilities	(4,848,767)	–	–	–	–
Derecognition of redemption liabilities	1,696,897	115,387	–	–	115,387
Share-based payments	–	–	43,163	–	43,163
Share of other comprehensive income of investments accounted for using the equity method	–	–	–	9,160	9,160
Balance at December 31, 2021 and June 30, 2022	<u>(4,898,094)</u>	<u>5,474,936</u>	<u>–</u>	<u>9,160</u>	<u>5,484,096</u>
(Unaudited)					
Balance at January 1, 2021	(1,746,224)	2,003,355	6,775	–	2,010,130
Capital contribution from shareholders	–	4,233,351	–	–	4,233,351
Recognition of redemption liabilities	(4,059,918)	–	–	–	–
Derecognition of redemption liabilities	1,696,897	115,387	–	–	115,387
Share-based payments	–	–	43,163	–	43,163
Balance at June 30, 2021	<u>(4,109,245)</u>	<u>6,352,093</u>	<u>49,938</u>	<u>–</u>	<u>6,402,031</u>

26 SHARE-BASED PAYMENTS

Share-based payments expenses for the periods presented relates to (a) options granted to certain co-founders of the Group without any vesting condition; (b) option rewards granted to certain directors, senior management, core technicians, key employees and other suitable person identified for their contribution to the Group with vesting conditions; and (c) an acceleration of vesting conditions with modification to prior schemes.

(a) Employee intensive scheme to co-founders – the Scheme 2016

In December 2016, shareholders of the Company granted four co-founders with employee incentive scheme (the “Scheme 2016”) for the purpose of providing incentives and rewards to eligible participants who contribute to the Group to the success of the Group’s operations. Eligible participants of the Scheme 2016 include four co-founders of the Company, who were granted 119,977,292 share options without performance nor service conditions, which were immediately exercisable with an exercise price of nil. The total expenses for share-based payments granted under the Scheme 2016 were RMB93,582,288, which were recognized as a one-off expense in profit or loss in 2016.

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(b) Employee intensive scheme of Paradigm Investment – the Scheme 2018

Paradigm (Tianjin) Management Consulting Partnership (Limited Partnership) (“Paradigm Investment”) , previously known as Paradigm (Ningbo Free Trade Zone) Investment Partnership (Limited Partnership), was established as the Employee Incentive Platform on March 29, 2018. Ms. Wu Ming, one of the controlling shareholders, transferred her 19.42% equity interests in the Company to Paradigm Investment at a nominal consideration of RMB1.

Starting from 2018, eligible participants were entitled to be granted share options in the form of equity interests in the Employee Incentive Platform, with the purpose of attracting, motivating, retaining and rewarding certain directors or senior management, core technicians or middle-level management, key employees and other suitable person identified (the “Scheme 2018”). Through the Scheme 2018, as a maximum, a total of 171,007,476 share options would be granted to the eligible participants through the Employee Incentive Platform, with an exercise price of nil.

The eligible participants are granted rewards conditional upon the achievement of a performance condition and remaining in the Group’s employment until that performance condition is satisfied. The length of the vesting period varies depending on when that performance condition is satisfied, the Company estimates the length of the expected vesting period at grant date, based on the most likely outcome of the performance condition. Basing on historical individual performance evaluation results of those eligible participants and considering the performance condition not difficult to meet, the Scheme 2018 has graded vesting terms and vest in different schedules from the grant date over 1 year, 3 years, 3.5 years and 4 years. For vesting schedule as one year, all granted rewards are vested on the first anniversary of the grant date. For vesting schedule as 3 years, 50% of the aggregate number of granted rewards are vested on the first anniversary of the grant date, 25% of granted rewards are vested on the second anniversary of the grant date, and the remaining granted rewards are vested on the third anniversary of the grant date. For vesting schedule as 3.5 years, 25% of the aggregate number of granted rewards are vested on the first half year of the grant date, every 25% of granted rewards are vested on the remaining 3 years. For vesting schedule as 4 years, the granted rewards are vested through 4 years with 10% to 60% vested each year unequally to eligible participants. During the Track Record Period, 71,987,711, 17,307,015, 37,446,539 and no share options were granted for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively.

(c) Modifications of the Scheme 2018

On April 25, 2021, the Employee Incentive Platform modified the terms and conditions on which the rewards granted in the Scheme 2018, primarily included: (i) the service and performance vesting conditions in the Scheme 2018 were cancelled, therefore, the Group accounted for the cancellation as an acceleration of vesting conditions, and therefore recognized immediately a share-based payment expense of RMB461,400,000 to profit or loss; (ii) the exercise price per share increased from nil in the Scheme 2018 to RMB35.87 per the underlying share of the Company and as a compensation of the increase exercise price, the eligible participants obtained the additional number of the Company’s shares. This modified term would be not otherwise beneficial to the employees, the Group therefore continued to account for the share-based payment as if that modification had not occurred. A total of 290,984,768 share options accelerated vested in May, 2021, and there is no outstanding share option as at June 30, 2021, December 31, 2021 and June 30, 2022.

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Movements in the number of share options granted to co-founders and employees under the Scheme 2016 and Scheme 2018 are set out as below:

	Number of share options
Outstanding as at January 1, 2019	175,212,955
Granted	71,987,711
Forfeited	(6,951,447)
Outstanding as at December 31, 2019	240,249,219
Outstanding as at January 1, 2020	240,249,219
Granted	17,307,015
Forfeited	(2,868,013)
Outstanding as at December 31, 2020	254,688,221
Outstanding as at January 1, 2021	254,688,221
Granted	37,446,539
Forfeited	(1,149,992)
Exercised	(290,984,768)
Outstanding as at December 31, 2021 and June 30, 2022	–
(Unaudited)	
Outstanding as at January 1, 2021	254,688,221
Granted	37,446,539
Forfeited	(1,149,992)
Exercised	(290,984,768)
Outstanding as at June 30, 2021	–

Fair value of share options

The Group has used discounted cash flow method and the straight-line interpolation method to determine the underlying equity fair value of the Company and adopted the equity allocation model to determine the fair value of the underlying share capitals. Key assumptions, such as discount rate and projections of future performance, are determined by the Group with best estimate.

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Based on fair value of the underlying share capitals, the Group has used Binomial option-pricing model to determine the fair value of the share option as of the grant date. Key assumptions are set as below:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
				<i>(Unaudited)</i>	
Fair value per share option (RMB)	4.28-7.28	7.28-8.35	8.35-9.77	8.35-9.77	N/A
Exercise price (RMB)	—	—	—	—	N/A
Risk-free interest rate	3.07%-3.23%	2.59%-3.15%	3.10%-3.19%	3.10%-3.19%	N/A
Dividend yield	—	—	—	—	N/A
Expected volatility	50%-51%	50%-51%	50%	50%	N/A

The weighted-average fair value of granted share options was RMB2.83, RMB3.16, RMB3.96 and RMB3.96 per share for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021, respectively.

The total expenses recognized in profit and loss for the aforementioned share-based payments are RMB233,232,000, RMB173,665,000, RMB560,721,000, RMB560,721,000 and nil for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, respectively.

During the year ended December 31, 2021, a Series D investor acquired the Company’s equity interests from the founder Mr. Dai Wenyuan at the subscription price of Series D financing and was entitled preferred rights as set out in Note 31. As the transaction price was higher than the fair value of the capital transferred by the founder, a share-based payment expense of RMB42,913,000 has been recognized accordingly.

27 TRADE PAYABLES

Trade payables primarily include payables for inventories and outsourcing service fees. As at December 31, 2019, 2020 and 2021 and June 30, 2022, the carrying amounts of trade payables were primarily denominated in RMB.

Trade payables and their aging analysis based on invoice date are as follows:

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Up to 3 months	15,047	79,059	216,443	148,752
3 to 6 months	184	5,906	53,964	41,364
Over 6 months	—	3	50,950	101,622
	<u>15,231</u>	<u>84,968</u>	<u>321,357</u>	<u>291,738</u>

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28 OTHER PAYABLES AND ACCRUALS

Group

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Payroll payables	38,241	50,763	75,301	73,220
Amount collected on behalf of third parties	36,585	—	—	—
[REDACTED] expenses payables	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other taxes payables	11,231	19,498	39,718	24,732
Expense reimbursement	1,475	921	6,178	5,652
Payable to a third party hardware supplier (Note 22(a)(ii))	—	—	31,000	31,000
Accrual expenses and others	9,644	2,184	14,353	5,301
	<u>97,176</u>	<u>73,366</u>	<u>183,863</u>	<u>163,617</u>

Company

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Amount due to a subsidiary	5,323	5,112	5,786	6,373
Payroll payables	1,352	1,197	—	—
[REDACTED] expenses payables	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Accrual expenses and others	607	27	11,190	1,486
	<u>7,282</u>	<u>6,336</u>	<u>34,289</u>	<u>31,571</u>

The carrying amounts of other payables approximated their fair values as at December 31, 2019, 2020 and 2021 and June 30, 2022. The other payables were primarily denominated in RMB.

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29 DEFERRED INCOME TAXES

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates at which are expected to be applied at the time of reversal of the temporary differences.

As at December 31, 2019, 2020 and 2021 and June 30, 2022, no deferred income tax assets and liabilities were offset. The analysis of deferred income tax assets and liabilities is as follows:

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred income tax assets:				
– to be recovered after 12 months	–	–	–	–
– to be recovered within 12 months	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Deferred income tax liabilities:				
– to be settled after 12 months	–	(889)	(14,592)	(15,684)
– to be settled within 12 months	(268)	(106)	(10,435)	(6,370)
	<u>(268)</u>	<u>(995)</u>	<u>(25,027)</u>	<u>(22,054)</u>

The gross movement on the deferred income tax assets is as follows:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
At the beginning of the year/period	–	–	–	–	–
Acquisitions of subsidiaries (Note 34)	–	–	2,274	2,274	–
Charged to profit or loss	–	–	(2,274)	(2,274)	–
At the end of the year/period	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

Deferred income tax assets are recognized for deductible temporary differences and tax losses to the extent that the realization of the related tax benefits through future taxable profits is probable. As at December 31, 2019, 2020 and 2021 and June 30, 2022, the Group did not recognize deferred income tax assets of RMB158,936,000, RMB253,272,000, RMB374,912,000 and RMB415,396,000, respectively, in respect of deductible temporary differences and cumulative tax losses amounting to RMB739,098,000, RMB1,159,224,000, RMB1,894,390,000 and RMB2,136,057,000, respectively, that can be carried forward against future taxable income. As at December 31, 2019, 2020 and 2021 and June 30, 2022, tax losses of RMB14,101,000, RMB35,881,000, RMB62,161,000 and RMB74,521,000, can be carried forward indefinitely, respectively, and the remaining tax losses of RMB716,925,000, RMB1,111,620,000, RMB1,803,860,000 and RMB2,029,722,000 will expire within 10 years from the respective balance sheet dates.

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The gross movement on the deferred income tax liabilities is as follows:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i>
At the beginning of the year/period	(101)	(268)	(995)	(995)	(25,027)
(Charged)/credited to profit or loss	(167)	(727)	(4,352)	(3,090)	6,123
Acquisitions of subsidiaries (<i>Note 34</i>)	—	—	(19,680)	(19,680)	(3,150)
At the end of the year/period	<u>(268)</u>	<u>(995)</u>	<u>(25,027)</u>	<u>(23,765)</u>	<u>(22,054)</u>

The detailed movements in deferred income tax assets and liabilities during the years/periods are as follows:

Deferred income tax assets:

	Credit loss allowance	Tax losses	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2019, December 31, 2019 and December 31, 2020	—	—	—
Acquisitions of subsidiaries (<i>Note 34</i>)	798	1,476	2,274
Charged to profit or loss	(798)	(1,476)	(2,274)
At June 30, 2021 (Unaudited), December 31, 2021 and June 30, 2022	<u>—</u>	<u>—</u>	<u>—</u>

Deferred income tax liabilities:

	Fair value changes of financial assets	Intangible assets acquired in business combination	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2019	(101)	—	(101)
Charged to profit or loss	(167)	—	(167)
At December 31, 2019	<u>(268)</u>	<u>—</u>	<u>(268)</u>
At January 1, 2020	(268)	—	(268)
Charged to profit or loss	(727)	—	(727)
At December 31, 2020	<u>(995)</u>	<u>—</u>	<u>(995)</u>

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	Fair value changes of financial assets	Intangible assets acquired in business combination	Total
	RMB'000	RMB'000	RMB'000
At January 1, 2021	(995)	–	(995)
(Charged)/credited to profit or loss	(6,757)	2,405	(4,352)
Acquisitions of subsidiaries (<i>Note 34</i>)	–	(19,680)	(19,680)
At December 31, 2021	<u>(7,752)</u>	<u>(17,275)</u>	<u>(25,027)</u>
(Unaudited)			
At January 1, 2021	(995)	–	(995)
(Charged)/credited to profit or loss	(3,710)	620	(3,090)
Acquisitions of subsidiaries (<i>Note 34</i>)	–	(19,680)	(19,680)
At June 30, 2021	<u>(4,705)</u>	<u>(19,060)</u>	<u>(23,765)</u>
At January 1, 2022	(7,752)	(17,275)	(25,027)
Credited to profit or loss	4,337	1,786	6,123
Acquisitions of subsidiaries (<i>Note 34</i>)	–	(3,150)	(3,150)
At June 30, 2022	<u>(3,415)</u>	<u>(18,639)</u>	<u>(22,054)</u>

30 BORROWINGS

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Included in current liabilities				
Bank borrowings, secured and guaranteed (<i>Note (a)</i>)	–	–	–	11,000
Factoring borrowings	–	–	3,752	1,173
Unsecured borrowings (<i>Note (b)</i>)	–	–	–	25,660
	<u>–</u>	<u>–</u>	<u>3,752</u>	<u>37,833</u>
Included in non-current liabilities				
Unsecured borrowings (<i>Note (b)</i>)	–	–	15,000	15,000

Notes:

- (a) The secured and guaranteed bank borrowings were all owed by the subsidiary newly acquired in June 2022, EpicHust (*Note 34(c)*), and the borrowings bear interests at fixed interest rates ranging from 4.35%-5.05% per annum as at June 30, 2022.
- (b) On April 22, 2021, Guangzhou Jianxin borrowed RMB15,000,000 from its non-controlling shareholder, Yulin Shibe Business Partnership (Limited Partnership), which is unsecured, interest-free and repayable on demand after June 30, 2024.

As at June 30, 2022, Guangzhou Jianxin had bank borrowings of RMB25,660,000 with fixed interest rates ranging from 4.50%-4.85% per annum, which were guaranteed by the Company or with no guarantee and should be repaid by May or June 2023.

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31 REDEMPTION LIABILITIES

Since the date of incorporation of the Company to June 30, 2022, the Company has completed several rounds of financing including Series A, Series A-1, Series A-2, Series B-1, Series B-2, Series C, Series C-1, Series C-2, Series D and Series D+ in the way of capital increase of the Company and capital transfer from founders to investors.

The key terms of the preferred rights granted to the abovementioned investors are summarized as follows:

(i) Redemption right

Investors have a right to require the Company to redeem their investments if (a) the Company fails to achieve a [REDACTED] (“[REDACTED]”) by the third anniversary of the initial closing date of Series D or the Deemed Liquidation Event (as defined in shareholder agreement) occurs; (b) the Company or the founder is convicted by the judicial authority or the authority with the right to punish that it has committed any crime or serious illegal act before the [REDACTED]; (c) the labor relation between the founder and the Group is terminated; (d) the Company has uninformed revenue from off account cash sales or significant internal control deficiencies due to the founder’s deliberate act; or (e) the founder or the Company has severely violated the provisions of the transaction documents and fails to take timely remedial action within ten business days after the investor gives written notice to request the remedy, and has had a significant adverse impact on the Company’s operations, resulting in the Company’s failure to complete the [REDACTED] within the limited period or the occurrence of Deemed Liquidation Event.

The redemption amount is the original investment principal from the investors, plus an annual rate of 10% of the original investment principal for a period of time commencing from the relevant payment date of investments to the registration change date for the redeemed shares (calculated as 365 days in a calendar year) and any accumulated or declared but undistributed profit.

(ii) Liquidation preferences

In the event of a Legal Liquidation Event (refers to the liquidation, dissolution or closure of the Company) or a Deemed Liquidation Event, the distributable liquidation property (after satisfaction of all creditors’ claims and claims that may be preferred by law in a Legal Liquidation Event and the total consideration received by the Company or the shareholders in a Deemed Liquidation Event) shall be distributed in the amount equal to the higher of (1) 100% of the original investment principal, plus the accumulated dividends or declared but undistributed dividends (and retained earnings) on the equity held; or (2) the distributable liquidation property can be distributed according to the equity proportion at that time, and in the priority order of Series D+/Series D, Series C-2, Series C-1, Series C, Series B, Series A-2, Series A-1 to Series A.

(iii) Anti-dilution right

If the Company increases its registered capital at a price lower than the price paid by the Anti-Dilution Right Holder (the Series D+, Series D, Series C-2, Series C-1, Series C or Series B investors with preferred rights referred) (the “New Low Financing”), the subscription price per unit invested by the Anti-dilution Right Holder in the Company will be adjusted.

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The Anti-Dilution Right Holder has the right to require the Company to issue new capitals or the founder to transfer capitals for a nominal consideration or a minimum price permitted by applicable laws or the Company and the founder to compensate the Anti-Dilution Right Holder in cash and permit the Anti-Dilution Right Holder to increase capitals then, so that the equity proportion held by the Anti-Dilution Right Holder can reach that can be subscribed according to the adjusted subscription price per unit.

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Redemption liabilities	1,528,181	2,147,031	5,822,196	6,145,742

The redemption rights and liquidation preferences granted to the investors constitute as the Company’s obligations to repurchase its own equity instruments. These obligations were recognized as redemption liabilities which are initially measured at fair value (representing the present value of the expected cash flows for settling the related obligations if these rights are exercised by the investors) and subsequently measured at amortized cost. The Company applied a redemption discount rate ranged from 10.5% to 13.5% to determine the initial recognition amount of the redemption liabilities. The anti-dilution right is a derivative financial instrument measured at fair value through profit or loss, of which the fair value was considered close to nil as the directors of Company expected the New Low Financing would never occur before the Company’s success in the [REDACTED].

Pursuant to the preferred rights termination agreement as entered into with respective investors on July 16, 2021, all redemption liabilities will be re-classified to equity upon the successful [REDACTED] of the Company.

The movements of redemption liabilities during the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022 are set out below:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
At the beginning of the year/period	756,095	1,528,181	2,147,031	2,147,031	5,822,196
Recognition	609,573	432,610	4,848,767	4,532,403	–
Charged to finance costs (Note 11)	162,513	186,240	638,682	328,414	323,546
Derecognition (Note (a))	–	–	(1,812,284)	(1,812,284)	–
At the end of the year/period	<u>1,528,181</u>	<u>2,147,031</u>	<u>5,822,196</u>	<u>5,195,564</u>	<u>6,145,742</u>

Note:

- (a) On May 31, 2021, the Company and certain investors agreed to terminate the abovementioned preferred rights with immediate effect. The redemption liabilities of approximately RMB1,812,284,000 and the treasury stock of approximately RMB1,696,897,000 were derecognized, with the difference of approximately RMB115,387,000 credited to the capital reserve.

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32 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OF LOSS

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Contingent consideration to acquire an associate	18,135	–	–	–

In January 2018, the Group entered into an agreement with Xinyu Huayun Investment Management Center (Limited Partnership), aiming at acquiring the equity interests of Huayun. A contingent consideration arrangement was included and classified as a financial liability measured at fair value through profit or loss. The fair value of the liability was determined based on management estimates and was within level 3 of the fair value hierarchy (Note 3.3). Due to the situation as disclosed in Note 17, the aforesaid financial liabilities measured at fair value through profit or loss have been derecognized in December 2020.

33 OTHER NON-CURRENT LIABILITIES

Group

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred government grants	–	400	151	–
Advance from investors (Note (a))	279,432	771,661	–	–
Payable for acquisition of subsidiaries (Note 34)	–	–	106,306	99,352
	279,432	772,061	106,457	99,352
Less: current portion of payable for acquisition of subsidiaries included in other current liabilities	–	–	(39,916)	(48,113)
	279,432	772,061	66,541	51,239

Company

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Advance from investors (Note (a))	279,432	771,661	–	–

Note:

- (a) Advance from investors represents the investment considerations received from investors before the closing date of the transactions as determined in relevant capital purchase agreements.

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34 BUSINESS COMBINATION

(a) Acquisition of Guangzhou Jianxin

On March 31, 2021, the Group acquired 66% of equity interests of Guangzhou Jianxin and its wholly owned subsidiaries at a cash consideration of RMB197,976,000, of which RMB156,116,000 was paid immediately and the remaining shall be repayable by instalments prior to May 2024.

Details of the purchase consideration, the net assets acquired and goodwill as at the acquisition date are as follows:

	As at March 31, 2021
	<u>RMB'000</u>
Purchase consideration	
Cash paid	156,116
Present value of deferred consideration	<u>37,674</u>
	<u>193,790</u>
Identifiable assets and liabilities:	
Cash and cash equivalents	7,756
Trade receivables	100,300
Prepayments and other receivables	7,393
Inventories	27,696
Deferred income tax assets	2,274
Property and equipment	3,838
Right-of-use assets	6,206
Intangible assets	
– Customer relationship (<i>Note (i)</i>)	50,700
– Technology (<i>Note (i)</i>)	31,900
– Software	4,712
Other non-current assets	1,000
Deferred income tax liabilities	(12,390)
Borrowings	(35,417)
Trade payables	(18,251)
Other payables and accruals	(18,521)
Contract liabilities	(1,875)
Lease liabilities	<u>(6,257)</u>
Net identifiable assets acquired	151,064
Less: non-controlling interests	(51,362)
Add: goodwill (<i>Note (ii)</i>)	<u>94,088</u>
Net assets acquired	<u><u>193,790</u></u>

Notes:

- (i) The identified intangible assets for the acquisition primarily consist of customer relationship and technology. They are initially recognized and measured at fair value as they are acquired in business combinations.

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- (ii) Goodwill acquired was mainly attributable to the operating synergies and economies of scale expected to be derived from combining the operations. None of the goodwill is expected to be deductible for income tax purpose.

The acquired business contributed revenue of approximately RMB247 million and net loss of approximately RMB29 million to the Group for the period from March 31, 2021, the acquisition date, to December 31, 2021. If the acquisition had occurred on January 1, 2021, consolidated pro-forma revenue and net loss for the year ended December 31, 2021 would have been approximately RMB2,043 million and approximately RMB1,810 million, respectively.

(b) Acquisition of Ideal Technology

On June 30, 2021, the Group acquired 54.44% equity interest in Ideal Technology by way of acquiring from other shareholders and capital increase at a total cash consideration of RMB245,000,000, of which RMB165,000,000 was paid immediately and the remaining shall be repayable by instalments prior to May 2025.

Details of the purchase consideration, the net assets acquired and goodwill as at the acquisition date are as follows:

	As at June 30, 2021
	<u>RMB'000</u>
Purchase consideration	
Cash paid	165,000
Present value of deferred consideration	<u>63,181</u>
	<u>228,181</u>
Identifiable assets and liabilities:	
Cash and cash equivalents	58,659
Restricted cash	3,446
Trade receivables	10,055
Prepayments and other receivables	2,169
Inventories	17,547
Property and equipment	1,381
Right-of-use assets	1,693
Intangible assets	
– Customer relationship (<i>Note (i)</i>)	30,800
– Technology (<i>Note (i)</i>)	11,100
– Brand name (<i>Note (i)</i>)	6,700
– Software	33
Deferred income tax liabilities	(7,290)
Borrowings	(300)
Trade payables	(949)
Other payables and accruals	(5,205)
Contract liabilities	(13,416)
Lease liabilities	<u>(1,538)</u>
Net identifiable assets acquired	114,885
Less: non-controlling interests	(52,343)
Add: goodwill (<i>Note (ii)</i>)	<u>165,639</u>
Net assets acquired	<u><u>228,181</u></u>

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Notes:

- (i) The identified intangible assets for the acquisition primarily consist of customer relationship, technology and brand name. They are initially recognized and measured at fair value as they are acquired in business combinations.
- (ii) Goodwill acquired was mainly attributable to the operating synergies and economies of scale expected to be derived from combining the operations. None of the goodwill is expected to be deductible for income tax purpose.

The acquired business contributed revenue of approximately RMB41 million and net loss of approximately RMB3 million to the Group for the period from June 30, 2021, the acquisition date, to December 31, 2021. If the acquisition of Ideal Technology had occurred on January 1, 2021, consolidated pro-forma revenue and net loss for the year ended December 31, 2021 would have been approximately RMB2,044 million and approximately RMB1,813 million, respectively.

(c) Acquisition of EpicHust

On June 30, 2022, the Group acquired 79.66% of equity interests of EpicHust and its subsidiaries at a cash consideration of RMB118,988,000, of which RMB85,778,000 was paid by June 30, 2022, RMB8,386,000 was paid in July 2022, and the remaining shall be repayable by instalments prior to June 2024.

Details of the purchase consideration, the net assets acquired and goodwill as at the acquisition date are as follows:

	<u>As at June 30, 2022</u>
	<i>RMB'000</i>
Purchase consideration	
Cash paid	85,778
Present value of deferred consideration	29,984
	<u>115,762</u>
Identifiable assets and liabilities:	
Cash and cash equivalents	7,637
Restricted cash	172
Trade receivables	42,258
Prepayments and other receivables	11,108
Inventories	30,474
Contract assets	10,252
Property and equipment	364
Right-of-use assets	174
Intangible assets	
– Customer relationship (<i>Note (i)</i>)	15,700
– Technology (<i>Note (i)</i>)	5,300
– Software	339
Deferred income tax liabilities	(3,150)
Borrowings	(11,000)
Trade payables	(18,548)
Other payables and accruals	(5,593)
Contract liabilities	(34,710)
Lease liabilities	(181)
Other current liabilities	(774)
	<u>49,822</u>
Net identifiable assets acquired	49,822
Less: non-controlling interests	(10,134)
Add: goodwill (<i>Note (ii)</i>)	76,074
	<u>115,762</u>
Net assets acquired	<u>115,762</u>

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Notes:

- (i) The identified intangible assets for the acquisition primarily consist of customer relationship and technology. They are initially recognized and measured at fair value as they are acquired in business combinations.
- (ii) Goodwill acquired was mainly attributable to the operating synergies and economies of scale expected to be derived from combining the operations. None of the goodwill is expected to be deductible for income tax purpose.

If the acquisition of EpicHust had occurred on January 1, 2022, consolidated pro-forma revenue and net loss for the six months ended June 30, 2022 would have been approximately RMB1,094 million and approximately RMB600 million, respectively.

35 CONTINGENCIES AND COMMITMENTS

The Group did not have any material contingent liabilities as at December 31, 2019, 2020 and 2021 and June 30, 2022.

(a) Capital commitments

Capital expenditure contracted for at the end of the year/period but not yet incurred is as follows:

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Investments	20,000	35,000	20,000	20,000

(b) Operating lease commitments

The Group leases offices under operating lease agreements. The Group’s future aggregate minimum lease payments under operating leases are as follows which are mainly related to short-term leases exempted from IFRS 16:

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Not later than 1 year	32	30	–	130

36 DIVIDENDS

No dividends have been paid or declared by the Company or the companies now comprising the Group during each of the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022.

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37 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family members of the Group are also considered as related parties.

The following significant transactions were carried out between the Group and its related parties during the periods presented. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Names and relationships with related parties

The following companies are related parties of the Group that had significant transactions and/or balances with the Group during the Track Record Period.

Names of the major related parties	Relationship
Huayun	Associate of the Group
Paradigm Cloud (Beijing) Retail Technology Co., Ltd. (“Paradigm Cloud”)	Joint venture of the Group
Beijing Paradigm Fund Management Co., Ltd. (“Paradigm Fund Management”)	Associate of the ultimate controlling shareholder
Yijing Zhilian (Beijing) Technology Co., Ltd. (“Yijing Zhilian”)	Associate of the Group

(b) Significant transactions with related parties

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
<i>(i) Sales of goods and services</i>					
Huayun	2,650	1,509	1,957	1,150	755
Paradigm Cloud	2,453	2,922	–	–	–
	<u>5,103</u>	<u>4,431</u>	<u>1,957</u>	<u>1,150</u>	<u>755</u>
<i>(ii) Purchases of goods and services</i>					
Huayun	3,417	4,775	3,375	2,363	1,530
Paradigm Cloud	–	918	283	283	–
	<u>3,417</u>	<u>5,693</u>	<u>3,658</u>	<u>2,646</u>	<u>1,530</u>
<i>(iii) Loan to a related party</i>					
Loan to Yijing Zhilian:					
At the beginning of the year/period	–	–	–	–	–
Loan advanced	–	–	–	–	4,000
Less: credit loss allowance	–	–	–	–	(10)
At the end of the year/period	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,990</u>

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(c) Significant balance with related parties

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
<i>(i) Other receivables from related parties</i>				
Paradigm Cloud	388	–	–	–
Paradigm Fund Management	–	200	–	–
Yijing Zhilian (Note (a))	–	–	–	3,990
	<u>388</u>	<u>200</u>	<u>–</u>	<u>3,990</u>
<i>(ii) Trade receivables from related parties</i>				
Huayun	981	1,366	2,221	2,054
Paradigm Cloud	2,600	–	–	–
	<u>3,581</u>	<u>1,366</u>	<u>2,221</u>	<u>2,054</u>
<i>(iii) Trade payables to related parties</i>				
Huayun	1,517	1,343	942	696
Paradigm Cloud	–	450	750	450
	<u>1,517</u>	<u>1,793</u>	<u>1,692</u>	<u>1,146</u>

Note:

- (a) The non-trade balance due from Yijing Zhilian will be settled prior to the [REDACTED] of the Company.

The other receivables from related parties were non-trade in nature. The trade receivables from related parties and the trade payables to related parties were trade in nature.

(d) Key management personnel compensation

The remuneration of directors, supervisors and other key management personnel is as follows:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Wages, salaries and bonuses	10,828	19,095	18,834	10,379	11,195
Contributions to pension plans	441	354	502	214	226
Other social security costs, housing benefits and other employee benefits	706	802	795	400	415
Share-based payment expenses (Note 26)	123,911	124,614	190,030	190,030	–
	<u>135,886</u>	<u>144,865</u>	<u>210,161</u>	<u>201,023</u>	<u>11,836</u>

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38 CASH FLOW INFORMATION

(a) Cash used in operations

	Year ended December 31			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i>
Loss before income tax	(716,723)	(749,483)	(1,791,699)	(1,181,655)	(588,360)
Adjustments for:					
– Depreciation and amortization					
– property and equipment	7,220	14,103	16,348	8,493	8,444
– right-of-use assets	15,636	27,430	25,958	11,849	13,406
– intangible assets	943	5,782	25,872	9,634	17,839
– Credit loss allowance	1,875	1,992	15,206	5,761	257
– Impairment provision for inventories	–	–	1,920	–	–
– Share-based payment expenses	233,232	173,665	603,634	603,634	–
– Interest income	(2,383)	(6,038)	(24,416)	(6,909)	(17,148)
– Interest expenses	163,487	188,693	646,800	329,733	328,335
– Losses/(gains) on disposal of property and equipment	1	105	(44)	(45)	–
– Gains on termination of right-of-use assets	–	(998)	–	–	–
– Fair value changes on financial assets at fair value through profit or loss	(19,022)	(18,362)	(85,024)	(40,503)	(39,245)
– Fair value changes on financial liabilities at fair value through profit or loss	2,032	888	–	–	–
– Share of losses/(profits) of investments accounted for using the equity method	4,228	6,477	(3,802)	1,878	717
– Net gains on disposal/dilution of investments accounted for using the equity method	–	(13,781)	(8,086)	(6,490)	–
– Foreign exchange (gains)/losses, net	(26)	3,568	1,197	1,241	(149)
– (Increase)/decrease in contract assets	(1,836)	53	(3,864)	(4,430)	(18,072)
– Increase in inventories	(11,504)	(7,177)	(112,990)	(74,405)	(19,992)
– (Increase)/decrease in trade receivables	(87,983)	(85,548)	(420,118)	(364,861)	17,419
– (Increase)/decrease in prepayments and other receivables	(39,005)	(80,562)	(51,306)	76,842	11,736
– Decrease/(increase) in restricted cash	1,323	(17,865)	13,637	13,169	969

APPENDIX I

ACCOUNTANT’S REPORT

	Year ended December 31			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i>
– Increase/(decrease) in trade payables	6,561	69,737	217,189	252,013	(48,167)
– Increase/(decrease) in other payables and accruals	32,970	(23,810)	73,751	(5,349)	(27,521)
– Increase/(decrease) in contract liabilities	12,175	56,318	81,491	(31,149)	3,060
– Increase/(decrease) in other current and non-current liabilities	1,731	975	(88)	(1,914)	(2,083)
Cash used in operations	(395,068)	(453,838)	(778,434)	(403,463)	(358,555)

(b) Reconciliation of liabilities from financing activities

This section sets out an analysis and the movements of liabilities from financing activities for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, respectively.

	Liabilities from financing activities			
	Redemption liabilities (Note 31)	Lease liabilities (Note 14)	Borrowings (Note 30)	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at January 1, 2019	756,095	10,255	–	766,350
Cash flows	–	(16,507)	–	(16,507)
Accrued interest expenses	162,513	974	–	163,487
Addition of redemption liabilities	609,573	–	–	609,573
Addition of new leases	–	70,844	–	70,844
As at December 31, 2019	1,528,181	65,566	–	1,593,747
As at January 1, 2020	1,528,181	65,566	–	1,593,747
Cash flows	–	(27,039)	–	(27,039)
Accrued interest expenses	186,240	2,453	–	188,693
Addition of redemption liabilities	432,610	–	–	432,610
Addition of new leases	–	704	–	704
Termination of leases	–	(2,909)	–	(2,909)
As at December 31, 2020	2,147,031	38,775	–	2,185,806

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ACCOUNTANT’S REPORT

	Liabilities from financing activities			
	Redemption liabilities (Note 31)	Lease liabilities (Note 14)	Borrowings (Note 30)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at January 1, 2021	2,147,031	38,775	–	2,185,806
Cash flows	–	(27,479)	(17,678)	(45,157)
Accrued interest expenses	638,682	1,954	713	641,349
Addition of redemption liabilities	4,848,767	–	–	4,848,767
Derecognition of redemption liabilities	(1,812,284)	–	–	(1,812,284)
Addition of new leases	–	14,319	–	14,319
Acquisition of subsidiaries (Note 34)	–	7,795	35,717	43,512
As at December 31, 2021	<u>5,822,196</u>	<u>35,364</u>	<u>18,752</u>	<u>5,876,312</u>
(Unaudited)				
As at January 1, 2021	2,147,031	38,775	–	2,185,806
Cash flows	–	(12,584)	4,883	(7,701)
Accrued interest expenses	328,414	1,002	317	329,733
Addition of redemption liabilities	4,532,403	–	–	4,532,403
Derecognition of redemption liabilities	(1,812,284)	–	–	(1,812,284)
Addition of new leases	–	6,275	–	6,275
Acquisition of subsidiaries (Note 34)	–	7,795	35,717	43,512
As at June 30, 2021	<u>5,195,564</u>	<u>41,263</u>	<u>40,917</u>	<u>5,277,744</u>
As at January 1, 2022	5,822,196	35,364	18,752	5,876,312
Cash flows	–	(13,062)	22,988	9,926
Accrued interest expenses	323,546	703	93	324,342
Addition of new leases	–	688	–	688
Acquisition of subsidiaries (Note 34)	–	181	11,000	11,181
As at June 30, 2022	<u>6,145,742</u>	<u>23,874</u>	<u>52,833</u>	<u>6,222,449</u>

(c) Major non-cash investing and financing activities

The major non-cash investing and financing activities during the Track Record Period mainly include (i) the addition of right-of-use assets and lease liabilities described in Note 14, (ii) the deemed disposals of interests in an associate due to the agreement on the waiver for settling the unpaid contingent consideration and increase in share of net assets of associates due to the dilution gains as described in Note 17, and (iii) the recognition of redemption liabilities due to the founder’s direct disposal of his equity interest in the Company to a Series D investor (with preferred rights granted by the Company) as described in Note 26, the interest amortization on redemption liabilities and the derecognition of redemption liabilities as described in Note 31.

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ACCOUNTANT’S REPORT

39 SUBSEQUENT EVENTS

Despite the reported Coronavirus Disease 2019 (including Omicron) (“COVID-19”) cases in China have been gradually reduced since June 2022, the continuance of the outbreak of COVID-19 pandemic might still be posing uncertainties on the Group’s businesses in respect of project delivery, marketing activities and securing new project pipelines to certain extent. As of the date of this Historical Financial Information, the Group was not aware of any material adverse effects on the financial statements. The Group will continue to pay close attention on the development of COVID-19 pandemic and dedicate resources to take actions to minimize the unfavorable impact on the Group’s businesses and operations in subsequent periods (if any).

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to June 30, 2022. No dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to June 30, 2022.

APPENDIX II

[REDACTED]

[REDACTED]

APPENDIX II

[REDACTED]

[REDACTED]

APPENDIX II

[REDACTED]

[REDACTED]

APPENDIX II

[REDACTED]

[REDACTED]

APPENDIX II

[REDACTED]

[REDACTED]

APPENDIX III

TAXATION AND FOREIGN EXCHANGE

TAXATION ON DIVIDENDS

Individual Investor

Pursuant to the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) (the “IIT Law”), which was last amended on August 31, 2018 and came into effect on January 1, 2019 and the Implementation Provisions of the Individual Income Tax Law of the People’s Republic of China (《中華人民共和國個人所得稅法實施條例》), which was last amended on December 18, 2018 and came into effect on January 1, 2019, for income including interest, dividend and bonus, individuals shall pay individual income tax with applicable proportional tax rate of 20%. Unless otherwise provided by the competent financial and taxation authorities under the State Council, all the interest, dividend and bonus received from enterprises, public institutions, economic organizations and resident individuals in the PRC are deemed as derived from the PRC whether the payment place is in the PRC. Pursuant to the Circular on Certain Issues Concerning the Policies of Individual Income Tax (《關於個人所得稅若干政策問題的通知》) promulgated by the Ministry of Finance and the State Administration of Taxation on May 13, 1994 and came into effect on the same date, overseas individuals are exempted from the individual income tax for dividends or bonuses received from foreign-invested enterprises.

Enterprise Investors

In accordance with the Enterprise Income Tax Law of the People’s Republic of China (《中華人民共和國企業所得稅法》) (the “EIT Law”), which was amended on December 29, 2018 and became effective on the same date, and the Implementation Provisions of the Enterprise Income Tax Law of the People’s Republic of China (《中華人民共和國企業所得稅法實施條例》), which was amended on April 23, 2019 and became effective on the same date, a non-resident enterprise is generally subject to a 10% enterprise income tax on PRC-sourced income (including dividends and bonus received from a PRC resident enterprise that issues shares in Hong Kong), if it does not have an establishment or premise in the PRC or has an establishment or premise in the PRC but its PRC-sourced income has no real connection with such establishment or premise. The aforesaid income tax payable for non-resident enterprises are deducted at source, where the payer of the income are required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due.

The Circular on Issues Relating to the Withholding of Enterprise Income Tax by PRC Resident Enterprises on Dividends Paid to Overseas Non-PRC Resident Enterprise Shareholders of H Shares (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) (Guo Shui Han [2008] No. 897), which was issued by the SAT on November 6, 2008, further clarified that a PRC-resident enterprise must withhold and remit enterprise income tax at a rate of 10% on the dividends of 2008 and onwards that it distributes to overseas non-resident enterprise shareholders of H Shares. In addition, the Response to Questions on Levying Enterprise Income Tax on Dividends Derived by Non-resident Enterprise from Holding Stock such as B Shares (《關於非居民企業取得B股等股票股息徵收企業所得稅問題的批覆》) (Guo Shui Han [2009] No. 394), which was issued by the SAT and came into

APPENDIX III

TAXATION AND FOREIGN EXCHANGE

effect on July 24, 2009, further provides that any PRC-resident enterprise whose shares are listed on overseas stock exchanges must withhold and remit enterprise income tax at a rate of 10% on dividends of 2008 and onwards that it distributes to non-resident enterprises. Such tax rates may be further modified pursuant to the tax treaty or agreement that China has entered into with a relevant country or area, where applicable.

Pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), which was signed on August 21, 2006, the Chinese Government may levy taxes on the dividends paid by a Chinese company to Hong Kong residents (including natural persons and legal entities) in an amount not exceeding 10% of the total dividends payable by the Chinese company. If a Hong Kong resident directly holds 25% or more of the equity interest in a Chinese company, then such tax shall not exceed 5% of the total dividends payable by the Chinese company. The Fifth Protocol of the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《<內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排>第五議定書》), which came in to effect on December 6, 2019, adds a criteria for the qualification of entitlement to enjoy treaty benefits. Although there may be other provisions under the Arrangement, the treaty benefits under the criteria shall not be granted in the circumstance where one of the essential purposes of the relevant arrangement or transaction which directly or indirectly brings about the treaty benefits, after taking into account all relevant facts and conditions, are reasonably deemed to be to obtain such benefits, except when the grant of benefits under such circumstance is consistent with relevant objective and goal under the Arrangement. The application of the dividend clause of the aforesaid tax agreements is subject to the requirements of PRC tax law documents, such as the Notice of the State Administration of Taxation on the Issues Concerning the Application of the Dividend Clauses of Tax Agreements (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) (Guo Shui Han [2009] No. 81).

Tax Treaties

Non-PRC resident investors residing in countries which have entered into treaties or adjustments for the avoidance of double taxation with the PRC or residing in Hong Kong or Macau are entitled to a reduction of the withholding taxes imposed on the dividends received from PRC companies. The PRC currently has entered into Avoidance of Double Taxation Treaties/Arrangements with a number of countries and regions including Hong Kong, Macau, Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. Non-PRC resident enterprises entitled to preferential tax rates in accordance with the relevant income tax agreements or arrangements are required to apply to the Chinese tax authorities for a refund of the withholding tax in excess of the agreed tax rate, and the refund payment is subject to approval by the Chinese tax authorities.

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TAXATION AND FOREIGN EXCHANGE

TAXATION ON SHARE TRANSFER

VAT and Local Additional Tax

Pursuant to the Notice on Fully Implementing the Pilot Reform for the Transition from Business Tax to Value-added Tax (《關於全面推開營業稅改徵增值稅試點的通知》) (“Circular 36”), which was implemented on May 1, 2016, entities and individuals engaged in the services sale in the PRC are subject to VAT and “engaged in the services sale in the PRC” means that the seller or buyer of the taxable services is located in the PRC. Circular 36 also provides that transfer of financial products, including transfer of the ownership of marketable securities, shall be subject to VAT at 6% on the taxable revenue (which is the balance of sales price upon deduction of purchase price), for a general or a foreign VAT taxpayer. However, individuals who transfer financial products are exempt from VAT, which is also provided in the Notice of Ministry of Finance and State Administration of Taxation on Several Tax Exemption Policies for Business Tax on Sale and Purchase of Financial Commodities by Individuals (《財政部、國家稅務總局關於個人金融商品買賣等營業稅若干免稅政策的通知》) became effective on January 1, 2009. According to these regulations, if the holder is a non-resident individual, the PRC VAT is exempted from the sale or disposal of H shares.

Individual Investor

According to the IIT Law and its implementation provisions, gains realized on the sale of equity interests in PRC resident enterprises are subject to individual income tax at a rate of 20%.

Pursuant to the Circular of Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from the Transfer of Shares (《關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) (Cai Shui Zi [1998] No. 61) issued by the MOF and the State Administration of Taxation (the “SAT”) and came into effect on March 20, 1998, from January 1, 1997, income of individuals from transfer of the shares of listed enterprises continues to be exempted from individual income tax. On December 31, 2009, the MOF, the SAT and CSRC jointly issued the Notice on Issues Concerning the Levy of Individual Income Tax on Individuals’ Income from the Transfer of Restricted Stocks of Listed Companies (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知》) (Cai Shui Zi [2009] No. 167), which became effective on December 31, 2009, states that individuals’ income from the transfer of listed shares on the Shanghai Stock Exchange and the Shenzhen Stock Exchange shall continue to be exempted from individual income tax, except for the relevant shares which are subject to sales restriction (as defined in the Supplementary Notice on Issues Concerning the Levy of Individual Income Tax on Individuals’ Income from the Transfer of Restricted Stocks of Listed Companies (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的補充通知》) (Cai Shui [2010] No. 70) jointly issued by the above three departments on November 10, 2010).

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As of the Latest Practicable Date, no aforesaid provisions had expressly provided whether individual income tax shall be levied from non-Chinese resident individuals on the transfer of shares in PRC resident enterprises listed on overseas stock exchanges. To the knowledge of the Company, in practice, the PRC tax authorities have not levied income tax from non-PRC resident individuals on gains from the transfer of shares of PRC resident enterprises listed on overseas stock exchange. However, there is no assurance that the PRC tax authorities will not change these practices which could result in levying income tax on non-PRC resident individuals on gains from the sale of H shares.

Enterprise Investors

In accordance with the EIT Law and its implementation provisions, a non-resident enterprise is generally subject to enterprise income tax at the rate of a 10% on PRC-sourced income, including gains derived from the disposal of equity interests in a PRC resident enterprise, if it does not have an establishment or premise in the PRC or has an establishment or premise in the PRC but its PRC-sourced income has no real connection with such establishment or premise. Such income tax payable for non-resident enterprises are deducted at source, where the payer of the income is required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due. Such tax may be reduced or exempted pursuant to relevant tax treaties or agreements on avoidance of double taxation.

Stamp Duty

Pursuant to the Provisional Regulations of the People’s Republic of China on Stamp Tax (《中華人民共和國印花稅暫行條例》), which was issued on August 6, 1988 and amended on January 8, 2011, and the Detailed Rules for the Implementation of the Provisional Regulations of the People’s Republic of China on Stamp Tax (《中華人民共和國印花稅暫行條例施行細則》), which came into effect on October 1, 1988, PRC stamp duty only applies to specific proof executed or received within the PRC, having legally binding force in the PRC and protected under the PRC laws, thus the requirements of the stamp duty imposed on the transfer of shares of PRC listed companies shall not apply to the acquisition and disposal of H Shares by non-PRC investors outside of the PRC.

According to the Law of the People’s Republic of China on Stamp Duty (《中華人民共和國印花稅法》) promulgated on June 10, 2021 and became effective on July 1, 2022, the purchase and disposal of H shares by non-PRC investors outside of the PRC does not apply to the relevant provisions of the Law of the People’s Republic of China on Stamp Duty (《中華人民共和國印花稅法》).

Estate Duty

As of the Latest Practicable Date, the PRC currently does not impose any estate duty.

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TAXATION AND FOREIGN EXCHANGE

MAJOR TAXES ON THE COMPANY IN THE PRC

Enterprise Income Tax

According to the Enterprise Income Tax Law of the People’s Republic of China (《中華人民共和國企業所得稅法》), which was amended on December 29, 2018 and became effective on the same date and the Regulation on the Implementation of the Enterprise Income Tax Law of the People’s Republic of China (《中華人民共和國企業所得稅法實施條例》), which was amended on April 23, 2019 and became effective on the same date, the applicable enterprise income tax rate of both domestic and foreign investment enterprises shall be 25%. Enterprises are classified into resident and non-resident enterprises. A resident enterprise shall pay enterprise income tax on its incomes derived from both inside and outside China, and the enterprise income tax rate shall be 25%. For a non-resident enterprise having establishments or premises in the PRC, it shall pay enterprise income tax on its incomes derived from the establishments or premises inside the PRC as well as on incomes that it earns outside the PRC but which has real connection with the said establishments or premises, and the enterprise income tax rate shall be 25%. For a non-resident enterprise having no establishments or premises inside the PRC, or for a non-resident enterprise whose incomes have no actual connection to its establishments or premises inside the PRC, it shall pay enterprise income tax on the incomes derived from the PRC, and the enterprise income tax rate shall be 10%.

Value-Added Tax

According to the Provisional Regulations of the People’s Republic of China on Value-Added Tax (《中華人民共和國增值稅暫行條例》) which was promulgated by the State Council on December 13, 1993, and amended on November 10, 2008, February 6, 2016 and November 19, 2017, and the Detailed Rules for the Implementation for the Provisional Regulations the People’s Republic of China on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》) which was promulgated by the Ministry of Finance on December 25, 1993 and subsequently amended on December 15, 2008 and October 28, 2011 (collectively, the “VAT Law”), all enterprises and individuals that engage in the sale of goods, the provision of processing, repair and replacement services, sales of service, intangible assets and real estate and the importation of goods inside of the PRC shall pay value-added tax at the rate of 0%, 6%, 11% and 17% for the different goods it sells and different services it provides, except when specified otherwise.

According to the Notice on the Adjustment to VAT Rates (《關於調整增值稅稅率的通知》) (Cai Shui [2018] No. 32), promulgated by the MOF and the SAT on April 4, 2018 and became effective as of May 1, 2018, the VAT rates of 17% and 11% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 16% and 10%, respectively.

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According to the Announcement on Relevant Policies for Deepening Value-Added Tax Reform (《關於深化增值稅改革有關政策的公告》(2019 No. 39 of MOF, SAT and General Administration of Customs), promulgated by the MOF, the SAT and the General Administration of Customs on March 20, 2019 and became effective on April 1, 2019, the VAT rates of 16% and 10% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 13% and 9%, respectively.

TAXATION IN HONG KONG

Tax on Dividends

Under the current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends paid by us.

Capital Gains and Profit Tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of H Shares. However, trading gains from the sale of the H Shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trade, profession or business will be subject to Hong Kong profits tax, which is currently imposed at the maximum rate of 16.5% on corporations and at the maximum rate of 15% on unincorporated businesses. The gains of certain categories of taxpayers (for example, financial institutions, insurance companies and securities dealers) are likely to be regarded as deriving trading gains rather than capital gains unless these taxpayers can prove that the investment securities are held for long-term investment purposes. Trading gains from sales of H Shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.13% on the higher of the consideration for or the market value of the H Shares, will be payable by the purchaser on every purchase and by the seller on every sale of Hong Kong securities, including H Shares (in other words, a total of 0.26% is currently payable on a typical sale and purchase transaction involving H Shares). In addition, a fixed stamp duty of HK\$5.00 is currently payable on any instrument of transfer of H Shares. Where one of the parties of the transfer is a resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee. If no stamp duty is paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

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TAXATION AND FOREIGN EXCHANGE

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong, pursuant to which no Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application of a grant of representation in respect of holders of H Shares whose deaths occur on or after February 11, 2006.

FOREIGN EXCHANGE

The lawful currency of the PRC is Renminbi, which is currently subject to foreign exchange control and cannot be freely converted into foreign currency. The SAFE, with the authorization of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On January 29, 1996, the State Council promulgated the Regulations of the People's Republic of China on Foreign Exchange Control (《中華人民共和國外匯管理條例》) (the "Foreign Exchange Control Regulations"). The Foreign Exchange Control Regulations classifies all international payments and transfers into current accounts and capital accounts. Most of the current accounts are not subject to the approval of foreign exchange administration agencies, while capital accounts are subject to the approval of foreign exchange administration agencies. The Foreign Exchange Control Regulations were subsequently amended on January 14, 1997 and August 5, 2008. According to the latest amendment to the Foreign Exchange Control Regulations, PRC will not impose any restriction on international current payments and transfers.

The Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) promulgated by PBOC on June 20, 1996 and became effective on July 1, 1996 removes other restrictions on convertibility of foreign exchange under current accounts, while imposing existing restrictions on foreign exchange transactions under capital accounts.

According to the Announcement on Improving the Reform of the Renminbi Exchange Rate Formation Mechanism (《關於完善人民幣匯率形成機制改革的公告》), which was issued by the PBOC and implemented on July 21, 2005, the PRC has started to implement a managed floating exchange rate system in which the exchange rate would be determined based on market supply and demand and adjusted with reference to a basket of currencies since July 21, 2005. Therefore, the Renminbi exchange rate was no longer pegged to the U.S. dollar. PBOC would publish the closing price of the exchange rate of the Renminbi against trading currencies such as the U.S. dollar in the interbank foreign exchange market after the closing of the market on each working day, as the central parity of the currency against Renminbi transactions on the following working day.

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According to the relevant laws and regulations in the PRC, PRC enterprises (including foreign investment enterprises) which need foreign exchange for current item transactions may, without the approval of the foreign exchange administrative authorities, effect payment through foreign exchange accounts opened at financial institutions that carries foreign exchange business or operating institutions that carries settlement and sale business, on the strength of valid receipts and proof. Foreign investment enterprises which need foreign exchange for the distribution of profits to their shareholders and PRC enterprises which, in accordance with regulations, are required to pay dividends to their shareholders in foreign exchange may, on the strength of resolutions of the board of directors or the shareholders’ meeting on the distribution of profits, effect payment from foreign exchange accounts opened at financial institutions that carries foreign exchange business or institutions that carries settlement and sale business, or effect exchange and payment at financial institutions that carries foreign exchange business or institutions that carries settlement and sale business.

On October 23, 2014, the State Council issued the Decision of the State Council on Canceling and Adjusting a Group of Administrative Approval Items and Other Matters (《國務院關於取消和調整一批行政審批項目等事項的決定》) (Guo Fa [2014] No. 50), which canceled the administrative approval by the SAFE and its branches for matters concerning the repatriation and settlement of foreign exchange of overseas-raised funds through overseas listing foreign shares.

On December 26, 2014, the SAFE issued the Notice of the State Administration of Foreign Exchange on Issues Concerning the Foreign Exchange Administration of Overseas Listing (《國家外匯管理局關於境外上市外匯管理有關問題的通知》) (Hui Fa [2014] No. 54). Pursuant to the notice, a domestic company shall, within 15 business days of the date of the end of its overseas listing issuance, register the overseas listing with the Administration of Foreign Exchange at the place of its establishment; the proceeds from an overseas listing of a domestic company may be remitted to the domestic account or deposited in an overseas account, but the use of the proceeds shall be consistent with the content of the prospectus and other disclosure documents. A domestic company (except for bank financial institutions) shall present its certificate of overseas listing to open a “special foreign exchange account for overseas listing of domestic company” at a local bank for its initial public offering (or follow-on offering) and repurchase business to handle the exchange, remittance and transfer of funds for the business concerned.

According to the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (Hui Fa [2015] No. 13) promulgated by the SAFE on February 13, 2015, imposed on June 1, 2015 and partially repealed on December 30, 2019, two of the administrative examination and approval items, being the confirmation of foreign exchange registration under domestic direct investment and the confirmation of foreign exchange registration under overseas direct investment have been canceled. Instead, banks shall directly examine and handle foreign

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TAXATION AND FOREIGN EXCHANGE

exchange registration under domestic direct investment and overseas direct investment (collectively, the “direct investment”), and the SAFE and its branch offices shall indirectly regulate the foreign exchange registration of direct investment through banks.

According to the Notice from the State Administration of Foreign Exchange on Reforming and Regulating the Policies of Administration of Foreign Exchange Settlement for Capital Account (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (Hui Fa [2016] No. 16) issued by the SAFE and came into effect on June 9, 2016, foreign currency earnings in capital account that relevant policies of willingness exchange settlement have been clearly implemented on (including the recalling of foreign exchange capital, foreign loans and raised capital by overseas listing) may undertake foreign exchange settlement in the banks according to actual business needs of the domestic institutions. The tentative percentage of foreign exchange settlement for foreign currency earnings in capital account of domestic institutions is 100%, subject to adjustment of the SAFE in due time in accordance with international revenue and expenditure situations.

On January 26, 2017, the SAFE issued the Notice of the State Administration of Foreign Exchange on Further Promoting the Reform of Foreign Exchange Administration and Improving the Examination of Authenticity and Compliance (《國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知》) (Hui Fa [2017] No. 3) to further expand the scope of settlement for domestic foreign exchange loans, allow settlement for domestic foreign exchange loans with export background under goods trading, allow repatriation of funds under domestic guaranteed foreign loans for domestic utilization, allow settlement for domestic foreign exchange accounts of foreign institutions operating in the Free Trade Pilot Zones, and adopt the model of full-coverage RMB and foreign currency overseas lending management, where a domestic institution engages in overseas lending, the sum of its outstanding overseas lending in RMB and outstanding overseas lending in foreign currencies shall not exceed 30% of its owner’s equity in the audited financial statements of the preceding year.

On October 23, 2019, the SAFE issued the Notice on Further Facilitating Cross-border Trade and Investment (《關於進一步促進跨境貿易投資便利化的通知》) (Hui Fa [2019] No. 28), which canceled restrictions on domestic equity investments made with capital funds by non-investing foreign-funded enterprises. In addition, restrictions on the use of funds for foreign exchange settlement of domestic accounts for the realization of assets have been removed and restrictions on the use and foreign exchange settlement of foreign investors’ security deposits have been relaxed. Eligible enterprises in the pilot area are also allowed to use revenues under capital, such as capital funds, foreign debts and overseas listing revenues for domestic payments without providing materials to the bank in advance for authenticity verification on an item by item basis, while the use of funds should be true, in compliance with applicable rules and conforming to the current capital revenue management regulations.

APPENDIX IV

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

THE PRC LEGAL SYSTEM

The PRC legal system is based on Constitution of the People’s Republic of China (《中華人民共和國憲法》, the “**Constitution**”), which was adopted on September 20, 1954 and subsequently amended on January 17, 1975, March 5, 1978, December 4, 1982, April 12, 1988, March 29, 1993, March 15, 1999, March 14, 2004 and March 11, 2018. The PRC legal system is made up of written laws, administrative regulations, local regulations, autonomous regulations, separate regulations, rules and regulations of State Council departments, rules and regulations of local governments, laws of special administrative regions and international treaties of which the PRC government is a signatory and other regulatory documents. Court judgments do not constitute legally binding precedents, although they are used for the purposes of judicial reference and guidance.

The National People’s Congress (the “**NPC**”) and its Standing Committee are empowered to exercise the legislative power of the State in accordance with the Constitution and the Legislation Law of the People’s Republic of China (《中華人民共和國立法法》, the “**Legislation Law**”), which was adopted on March 15, 2000 and amended on March 15, 2015. The NPC has the power to formulate and amend basic laws governing state authorities, civil, criminal and other matters. The Standing Committee of the NPC formulates and amends laws other than those required to be enacted by the NPC and to supplement and amend parts of the laws enacted by the NPC during the adjournment of the NPC, provided that such supplements and amendments are not in conflict with the basic principles of such laws.

The State Council is the highest organ of state administration and has the power to formulate administrative regulations based on the Constitution and laws.

The people’s congresses of the provinces, autonomous regions and municipalities and their respective standing committees may formulate local regulations based on the specific circumstances and actual needs of their respective administrative areas, provided that such local regulations do not contravene any provision of the Constitution, laws or administrative regulations. The people’s congresses of cities divided into districts and their respective standing committees may formulate local regulations on aspects such as urban and rural construction and management, environmental protection and historical cultural protection based on the specific circumstances and actual needs of such cities, provided that such local regulations do not contravene any provision of the Constitution, laws, administrative regulations and local regulations of their respective provinces or autonomous regions. If the law provides otherwise on the matters concerning formulation of local regulations by cities divided into districts, those provisions shall prevail. Such local regulations will become enforceable after being reported to and approved by the standing committees of the people’s congresses of the relevant provinces or autonomous regions but such local regulations shall conform with the Constitution, laws, administrative regulations, and the relevant local regulations of the relevant provinces or autonomous regions. The standing committees of the people’s congresses of the provinces or autonomous regions examine the legality of local regulations submitted for approval, and such approval should be granted within four months if

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they are not in conflict with the Constitution, laws, administrative regulations and local regulations of such provinces or autonomous regions. Where, during the examination for approval of local regulations of cities divided into districts by the standing committees of the people's congresses of the provinces or autonomous regions, conflicts are identified with the rules and regulations of the people's governments of the provinces or autonomous regions concerned, a handling decision should be made by the standing committees of the people's congresses of provinces or autonomous regions to resolve the issue. People's congresses of national autonomous areas have the power to enact autonomous regulations and separate regulations in light of the political, economic and cultural characteristics of the ethnic groups in the areas concerned. The autonomous regulations and separate regulations of an autonomous region shall come into force after being reported to and approved by the Standing Committee of the NPC. The autonomous regulations and separate regulations of an autonomous prefecture or an autonomous county shall come into force after being reported to and approved by the standing committee of the people's congress of the province, autonomous region, or municipality directly under the Central Government.

The ministries and commissions of the State Council, the People's Bank of China, National Audit Office and the subordinate institutions with administrative functions directly under the State Council may formulate departmental rules within the jurisdiction of their respective departments based on the laws and administrative regulations, and the decisions and orders of the State Council. The people's governments of the provinces, autonomous regions, municipalities and cities or autonomous prefectures divided into districts may formulate rules and regulations based on the laws, administrative regulations and local regulations of such provinces, autonomous regions and municipalities.

According to the Constitution and the Legislation Law, the power to interpret laws is vested in the Standing Committee of the NPC. Pursuant to the Resolution of the Standing Committee of the NPC Providing an Improved Interpretation of the Law (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) implemented on June 10, 1981, the Supreme People's Court has the power to give interpretation on issues related to the application of laws and decrees in a court trial, and issues related to the application of laws and decrees in a prosecution process of a procuratorate should be interpreted by the Supreme People's Procuratorate. If there is any disagreement in principle between Supreme People's Court's interpretations & Supreme People's Procuratorate's interpretations, such issues shall be reported to the Standing Committee of the NPC for interpretation or judgment. The other issues related to laws and decrees other than the abovementioned should be interpreted by the State Council and the competent authorities. The State Council and its ministries and commissions are also vested with the power to give interpretations of the administrative regulations and departmental rules which they have promulgated. At the regional level, the power to interpret regional laws is vested in the regional legislative and administrative authorities which promulgate such laws.

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THE PRC JUDICIAL SYSTEM

Under the Constitution and the Law of Organization of the People’s Courts of the People’s Republic of China (《中華人民共和國人民法院組織法》), which is adopted on September 21, 1954 and subsequently amended on July 5, 1979, September 2, 1983, December 2, 1986, October 31, 2006 and October 26, 2018, the PRC judicial system is made up of the Supreme People’s Court, the local people’s courts, the military courts and other special people’s courts.

The local people’s courts are comprised of the basic people’s courts, the intermediate people’s courts and the higher people’s courts. The basic people’s courts may set up civil, criminal and economic divisions, and certain people’s tribunals based on the facts of the region, population and cases. The intermediate people’s courts have divisions similar to those of the basic people’s courts and may set up other special divisions if needed. These two levels of people’s courts are subject to supervision by people’s courts at higher levels. The Supreme People’s Court is the highest judicial authority in the PRC. It supervises the administration of justice by the people’s courts at all levels and special people’s courts. The Supreme People’s Procuratorate is authorized to supervise the judgment and ruling of the people’s courts at all levels which have been legally effective, and the people’s procuratorate at a higher level is authorized to supervise the judgment and ruling of a people’s court at lower levels which have been legally effective.

Under the Civil Procedure Law of the People’s Republic of China (《中華人民共和國民事訴訟法》), which is adopted on April 9, 1991 and subsequently amended on October 28, 2007, August 31, 2012, and June 27, 2017, a people’s court takes the rule of the second instance as the final rule. A party may appeal against the judgment or ruling of the first instance of a local people’s court. The people’s procuratorate may present a protest to the people’s court at the next higher level in accordance with the procedures stipulated by the laws. In the absence of any appeal by the parties and any protest by the people’s procuratorate within the stipulated period, the judgments or rulings of the people’s court are final. Judgments or rulings of the second instance of the intermediate people’s courts, the higher people’s courts and the Supreme People’s Court, and judgments or rulings of the first instance of the Supreme People’s Court are final. However, if the Supreme People’s Court finds some definite errors in a legally effective judgment, ruling or conciliation statement of the people’s court at any level, or if the people’s court at a higher level finds such errors in a legally effective judgment, ruling or conciliation statement of the people’s court at a lower level, it has the authority to review the case itself or to direct the lower-level people’s court to conduct a retrial. If the chief judge of all levels of people’s courts finds some definite errors in a legally effective judgment, ruling or conciliation statement, and considers a retrial is preferred, such case shall be submitted to the judicial committee of the people’s court at the same level for discussion and decision.

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The Civil Procedure Law of the People’s Republic of China (《中華人民共和國民事訴訟法》) prescribes the conditions for instituting a civil action, the jurisdiction of the people’s courts, the procedures for conducting a civil action, and the procedures for enforcement of a civil judgment or ruling. All parties to a civil action conducted within the PRC must abide by the PRC Civil Procedure Law. Generally, a civil case is initially heard by the court located in the defendant’s place of domicile. The court of jurisdiction in respect of a civil action may also be chosen by explicit agreement among the parties to a contract, provided that the people’s court having jurisdiction should be located at places substantially connected with the disputes, such as the plaintiff’s or the defendant’s place of domicile, the place where the contract is executed or signed or the place where the object of the action is located, provided that the provisions regarding the level of jurisdiction and exclusive jurisdiction shall not be violated.

A foreign individual, a person without nationality, a foreign enterprise or a foreign organization is given the same litigation rights and obligations as a citizen, a legal person or other organizations of the PRC when initiating actions or defending against litigations at a PRC court. Should a foreign court limit the litigation rights of PRC citizens or enterprises, the PRC court may apply the same limitations to the citizens and enterprises of such foreign country. A foreign individual, a person without nationality, a foreign enterprise or a foreign organization must engage a PRC lawyer in case he or it needs to engage a lawyer for the purpose of initiating actions or defending against litigations at a PRC court. In accordance with the international treaties to which the People’s Republic of China is a signatory or participant or according to the principle of reciprocity, a people’s court and a foreign court may request each other to serve documents, conduct investigation and collect evidence and conduct other actions on its behalf. All parties to a civil action shall perform the legally effective judgments and rulings. If any party to a civil action refuses to abide by a judgment or ruling made by a people’s court or an award made by an arbitration tribunal in the PRC, the other party may apply to the people’s court for the enforcement of the same within two years subject to application for postponed enforcement or revocation. If a party fails to satisfy within the stipulated period a judgment which the court has granted an enforcement approval, the court may, upon the application of the other party, mandatorily enforce the judgment on the party.

Where a party applies for enforcement of a judgment or ruling made by a people’s court, and the opposite party or his property is not within the territory of the PRC, the applicant may directly apply to a foreign court with jurisdiction for recognition and enforcement of the judgment or ruling. A foreign judgment or ruling may also be recognized and enforced by the people’s court in accordance with the PRC enforcement procedures if the PRC has entered into, or acceded to, international treaties with the relevant foreign country, which provided for such recognition and enforcement, or if the judgment or ruling satisfies the court’s examination according to the principle of reciprocity, unless the people’s court considers that the recognition or enforcement of such judgment or ruling would violate the basic legal principles of the PRC, its sovereignty or national security, or against the social and public interests.

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SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

THE PRC SECURITIES LAWS, REGULATIONS

The PRC has promulgated a number of regulations that relate to the issue and trading of shares and disclosure of information. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC is the regulatory arm of the Securities Committee and is responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offerings of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking relevant research and analysis. In April 1998, the State Council consolidated the two departments and reformed the CSRC.

The Interim Provisional Regulations on the Administration of Share Issuance and Trading (《股票發行與交易管理暫行條例》) stipulates the public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, clearing and transfer of listed equity securities, the disclosure of information with respect to a listed company, investigation, penalties and dispute settlement.

On December 25, 1995, the State Council promulgated the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies (《國務院關於股份有限公司境內上市外資股的規定》). These regulations principally govern the issue, subscription, trading and declaration of dividends and other distributions of domestic listed foreign shares and disclosure of information of joint stock limited companies having domestic listed foreign shares.

The Securities Law of the People’s Republic of China (《中華人民共和國證券法》), the “PRC Securities Law”) took effect on July 1, 1999 and was revised as of August 28, 2004, October 27, 2005, June 29, 2013, August 31, 2014 and December 28, 2019, respectively. The PRC Securities Law, which was revised on December 28, 2019 and came into effect on March 1, 2020, is divided into 14 chapters and 226 articles, regulating, among other things, the issue and trading of securities, the listing of securities, and takeovers of listed companies.

Article 224 of the PRC Securities Law provides that domestic enterprises which, directly or indirectly, issue securities or list and trade their securities outside the PRC shall comply with the relevant regulations of the State Council. Currently, the issue and trading of foreign issued securities (including shares) are principally governed by the regulations and rules promulgated by the State Council and the CSRC.

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ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

The Arbitration Law of the People’s Republic of China (《中華人民共和國仲裁法》) (the “PRC Arbitration Law”) was enacted by the Standing Committee of the NPC on August 31, 1994, which became effective on September 1, 1995 and was amended on August 27, 2009 and September 1, 2017, respectively. It is applicable to, among other matters, economic disputes involving foreign parties where all parties have entered into a written agreement to resolve disputes by arbitration before an arbitration committee constituted in accordance with the PRC Arbitration Law. The PRC Arbitration Law provides that an arbitration committee may, before the promulgation of arbitration regulations by the PRC Arbitration Association, formulate interim arbitration rules in accordance with the PRC Arbitration Law and the PRC Civil Procedure Law. Where the parties have agreed to settle disputes by means of arbitration, a people’s court will refuse to handle a legal proceeding initiated by one of the parties at such people’s court, unless the arbitration agreement is invalid.

The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and, in the case of the Listing Rules, also in contracts between the company and each director or supervisor. Pursuant to such clause, whenever a dispute or claim arises from any right or obligation provided in the articles of association, the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the company between (i) a holder of overseas listed foreign shares and the company; (ii) a holder of overseas listed foreign shares and a holder of domestic shares; or (iii) a holder of overseas listed foreign shares and the company’s directors, supervisors or other senior management personnel, such parties shall be required to refer such dispute or claim to arbitration at either the China International Economic and Trade Arbitration Commission (“CIETAC”) or the Hong Kong International Arbitration Center (“HKIAC”). Disputes in respect of the status of shareholder and disputes in relation to the company’s shareholder registry need not be resolved by arbitration. If the party seeking arbitration chooses to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen in accordance with the securities arbitration rules of the HKIAC.

Under the PRC Arbitration Law and PRC Civil Procedure Law, an arbitral award shall be final and binding on the parties involved in the arbitration. If any party fails to comply with the arbitral award, the other party to the award may apply to a people’s court for its enforcement. The people’s court can issue a ruling prohibiting the enforcement of an arbitral award made by an arbitration commission after verification by collegial bench formed by the people’s court if there is any procedural irregularity (including but not limited to irregularity in the composition of the arbitration tribunal or arbitration proceedings, the jurisdiction of the arbitration commission, or the making of an award on matters beyond the scope of the arbitration agreement).

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Any party seeking to enforce an award of a foreign affairs arbitral body of the PRC against a party who or whose property is not located within the PRC shall apply to a foreign court with jurisdiction over the case for recognition and enforcement of the award. Likewise, an arbitral award made by a foreign arbitral body may be recognized and enforced by a PRC court in accordance with the principle of reciprocity or any international treaties concluded or acceded to by the PRC.

The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (《承認及執行外國仲裁裁決公約》, the “New York Convention”) adopted on June 10, 1958 pursuant to a resolution passed by the Standing Committee of the NPC on December 2, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties thereto subject to their rights to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of that state. At the time of the PRC’s accession to the Convention, the Standing Committee of the NPC declared that (i) the PRC will only apply the Convention to the recognition and enforcement of arbitral awards made in the territories of other parties based on the principle of reciprocity; and (ii) the New York Convention will only be applied to disputes deemed under PRC laws to be arising from contractual or non-contractual mercantile legal relations.

An arrangement for mutual enforcement of arbitral awards between Hong Kong and the Supreme People’s Court of China was reached. The Supreme People’s Court of China adopted the Arrangements on the Mutual Enforcement of Arbitral Awards between the Mainland and the Hong Kong Special Administrative Region (《關於內地與香港特別行政區相互執行仲裁裁決的安排》) on June 18, 1999, which went into effect on February 1, 2000. The arrangement reflects the spirit of the New York Convention. Under the arrangements, the awards by the Mainland arbitral bodies in accordance with the PRC Arbitration Law may be enforced in Hong Kong, and the awards by the Hong Kong arbitral bodies according to the Arbitration Ordinance of Hong Kong SAR may also be enforced in the Mainland China. If the Mainland court finds that the enforcement of awards made by the Hong Kong arbitral bodies in the Mainland will be against public interests of the Mainland, or the court of Hong Kong SAR decides that the enforcement of the arbitral awards in Hong Kong SAR will be against public policies of Hong Kong SAR, the awards may not be enforced. The Supreme People’s Court of China adopted the Supplementary Arrangements on the Mutual Enforcement of Arbitral Awards between the Mainland and the Hong Kong Special Administrative Region (《最高人民法院關於內地與香港特別行政區相互執行仲裁裁決的補充安排》) (the “Supplementary Arrangements”) on November 9, 2020. According to the Supplementary Arrangements, before or after the acceptance of an application for enforcement of an arbitration award, the relevant court may, upon application and in accordance with the law of the place where the arbitration award is enforced, adopt preservation or enforcement measures.

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Judicial judgment and its enforcement

According to the Arrangement on Mutual Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland China and of the Hong Kong Special Administrative Region Pursuant to Agreed Jurisdiction by Parties Concerned (《最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) promulgated by the Supreme People’s Court on July 3, 2008 and implemented on August 1, 2008, in the case of final judgment, defined with payment amount and enforcement power, made between the court of Mainland China and the court of the Hong Kong Special Administrative Region in a civil and commercial case with written jurisdiction agreement, any party concerned may apply to the People’s Court of China or the court of the Hong Kong Special Administrative Region for recognition and enforcement based on this arrangement. “Written jurisdiction agreement” refers to a written agreement defining the exclusive jurisdiction of either the People’s Court of China or the court of the Hong Kong Special Administrative Region in order to resolve any dispute with particular legal relation occurred or likely to occur by the party concerned. Therefore, the party concerned may apply to the People’s Court of China or the court of the Hong Kong Special Administrative Region to recognize and enforce the final judgment made in China or Hong Kong that meets certain conditions of the aforementioned regulations.

SHANGHAI-HONG KONG STOCK CONNECT

On April 10, 2014, CSRC and Hong Kong Securities and Futures Commission (hereinafter referred to as “HKSFC”) issued the Joint Announcement of China Securities Regulatory Commission and Hong Kong Securities and Futures Commission – Principles for the Prospective Implementation of the Pilot Program that Links the Stock Markets in Shanghai and Hong Kong is Expected to be Implemented and approved in principle the launch of the pilot program that links the stock markets in Shanghai and Hong Kong (hereinafter referred to as “Shanghai-Hong Kong Stock Connect”) by the Shanghai Stock Exchange (hereinafter referred to as “SSE”), the Stock Exchange, China Securities Depository and Clearing Corporation Limited (hereinafter referred to as “CSDCC”) and HKSCC. Shanghai-Hong Kong Stock Connect comprises the two portions of Northbound Trading Link and Southbound Trading Link. Southbound Trading Link refers to the entrustment of China securities houses by China investors to trade stocks listed on the Stock Exchange within a stipulated range via filing by the securities trading service company established by the SSE. During the initial period of the pilot program, the stocks of Southbound Trading Link consist of constituent stocks of the Stock Exchange Hang Seng Composite LargeCap Index and the Hang Seng Composite MidCap Index as well as stocks of A+H stock companies concurrently listed on the Stock Exchange and the SSE. The total limit of Southbound Trading Link is RMB250 billion and the daily limit is RMB10.5 billion. During the initial period of the pilot program, it is required by HKSFC that China investors participating in Southbound Trading Link are only limited to institutional investors and individual investors with a securities account and capital account balance of not less than RMB500,000.

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On November 10, 2014, CSRC and HKSFSC issued a Joint Announcement, approving the official launch of Shanghai-Hong Kong Stock Connect by SSE, the Stock Exchange, CSDCC and HKSCC. Pursuant to the Joint Announcement, trading of stocks under Shanghai-Hong Kong Stock Connect will commence on November 17, 2014.

On September 30, 2016, CSRC issued the Filing Provision on the Placement of Shares by Hong Kong Listed Companies to Domestic Original Shareholders under Southbound Trading Link which came into effect on the same day. The act of the placement of shares by Hong Kong listed companies to domestic original shareholders under Southbound Trading Link shall be filed with CSRC. Hong Kong listed companies shall file the application materials and approved documents with CSRC after obtaining approval from the Stock Exchange for their share placement applications. CSRC will carry out supervision based on the approved opinion and conclusion of the Hong Kong side.

THE PRC COMPANY LAW, SPECIAL REGULATIONS AND THE MANDATORY PROVISIONS

The Company Law of the People’s Republic of China (《中華人民共和國公司法》) (the “PRC Company Law”) was adopted by the 5th meeting of the Standing Committee of the 8th National People’s Congress Session on December 29, 1993 and came into effect on July 1, 1994. It was amended on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013, and October 26, 2018, respectively. The latest revised PRC Company Law was implemented on October 26, 2018.

Special Regulations of the State Council concerning Floating and Listing of Shares Overseas by Joint Stock Limited Company (《國務院關於股份有限公司境外募集股份及上市的特別規定》) (the “Special Regulations”) was passed at the 22nd Standing Committee Meeting of the State Council on July 4, 1994 and promulgated and implemented on August 4, 1994. The Special Regulations was applicable to the issuance of shares to overseas investors by and listing of joint stock limited companies.

The Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (《到境外上市公司章程必備條款》) (the “Mandatory Provisions”) jointly promulgated by the former Securities Commission of the State Council and the former State Commission for Restructuring the Economic System and implemented on August 27, 1994 prescribe that the provisions should be incorporated in the articles of association of joint stock limited companies to be listed in overseas stock exchanges. Accordingly, the contents required by the Mandatory Provisions have been incorporated in the Articles of Association.

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Circular issued by the State Council in connection with the adjustments in regulations concerning companies registered in China and listed abroad

On October 17, 2019, the State Council issued the Official Reply of the State Council on the Adjustment of the Notice Period for the General Meeting and Other Matters Applicable to the Overseas Listed Companies (the “State Council Circular No. 97 [2019]”) (《國務院關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批覆》(國函[2019]97號)) with effect from October 17, 2019, pursuant to which State Council agreed that companies registered in China and listed abroad shall comply with the PRC Company Law with respect to the notice period, shareholders right to formulate proposals and the procedures for convening a general meeting, and that relevant procedures set forth in Article 20 to Article 22 of the Special Regulations shall no longer apply.

Set out below is a summary of the major provisions of the PRC Company Law, the Special Regulations and the Mandatory Provisions.

General

A “joint stock limited company” (“company”) refers to an enterprise legal person incorporated in China under the PRC Company Law with independent legal person properties and entitlements to such legal person properties and with its registered capital divided into shares of equal par value. The liability of the company for its own debts is limited to all the properties it owns and the liability of its shareholders for the company is limited to the extent of the shares they subscribe for.

Incorporation

A joint stock limited company may be established by promotion or subscription. A joint stock limited company shall have a minimum of two but no more than 200 people as its promoters, and over half of the promoters must be resident within the PRC. Companies established by promotion are companies of which the registered capital is the total share capital subscribed for by all the promoters registered with the company’s registration authorities. No share offering shall be made before the shares subscribed for by the promoters are fully paid up. For companies established by subscription, the registered capital is the total paid-up share capital as registered with the company’s registration authorities. If laws, administrative regulations and State Council decisions provide otherwise on paid-in registered capital and the minimum registered capital, the company should follow such provisions.

For companies incorporated by way of promotion, the promoters shall subscribe in writing for the shares required to be subscribed for by them and pay up their capital contributions under the articles of association. In the case of capital contributions to be made in non-cash assets, the formalities for transfer of property rights shall be completed in accordance with the provisions of the law. Promoters who fail to pay up their capital contributions in accordance with the foregoing provisions shall assume default liabilities in

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accordance with the covenants set out in the promoters’ agreement. After the promoters have subscribed for the capital contribution under the articles of association, a board of directors and a supervisory board shall be elected and the board of directors shall apply for registration of establishment by filing the articles of association with relevant administration for industry and commerce, and other documents as required by the law or administrative regulations.

After the subscription monies for the share issue have been paid in full, a capital verification institution established under PRC law must be engaged to conduct a capital verification and furnish a certificate thereof. The promoters of the company shall preside over and convene an inauguration meeting within 30 days from the date of the full payment of subscription monies. The inauguration meeting shall be formed by the promoters and subscribers. Where the shares issued remain undersubscribed by the cut-off date stipulated in the share offering prospectus, or where the promoter fails to convene an inauguration meeting within 30 days of the subscription monies for the shares issued being fully paid up, the subscribers may demand that the promoters refund the subscription monies so paid together with the interest at bank rates of a deposit for the same period. Within 30 days of the conclusion of the inauguration meeting, the board of directors shall apply to the company registration authority for registration of the establishment of the company. A company is formally established and has the capacity of a legal person after approval of registration has been given by the relevant administration for industry and commerce and a business license has been issued.

A company’s promoter shall be liable for the followings:

- (1) the debts and expenses incurred in the establishment process jointly and severally if the company cannot be incorporated;
- (2) the refund of subscription monies paid by the subscribers together with interest at bank rates of deposit for the same period jointly and severally if the company cannot be incorporated; and
- (3) the compensation of any damages suffered by the company as a result of the promoters’ fault in the course of its establishment.

According to the Provisional Regulations on the Administration of Share Issuance and Trading (《股票發行與交易管理暫行條例》) promulgated by the State Council on April 22, 1993 (which is only applicable to the issuance and trading of shares in the PRC and their related activities), if a company is established by means of public subscription, all promoters or directors and the lead distributor shall warrant by way of signature of the prospectus to ensure that the prospectus does not contain any misrepresentation, serious misleading statements or material omissions, and assume joint and several responsibility for it.

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Share Capital

The promoters of a company may make a capital contribution in currencies, or non-monetary assets such as in kind or intellectual property rights or land use rights which can be appraised with monetary value and transferred lawfully, except for assets which are prohibited from being contributed as capital by the laws or administrative regulations. If a capital contribution is made in non-monetary assets, a valuation and verification of the fair value of the assets contributed must be carried out.

The issuance of shares shall be conducted in a fair and equitable manner. The same class of shares must carry equal rights. For shares issued at the same time and within the same class, the conditions and price per share must be the same. The share offering price may be equal to or greater than the nominal value of the share, but may not be less than the nominal value.

A company must obtain the approval of CSRC to offer its shares to the overseas public. According to the Special Regulations and the Mandatory Provisions, the shares issued to foreign investors and listed overseas by a company shall be in registered form, denominated in Renminbi and subscribed for in foreign currency. Shares issued to foreign investors and listed overseas are classified as overseas-listed foreign shares, and those shares issued to investors within the PRC, are known as domestic shares. Under the Special Regulations, upon approval of CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas-listed foreign shares, to retain not more than 15% of the aggregate number of such overseas-listed foreign invested shares proposed to be issued in addition to the number of underwritten shares. The issuance of the retained shares is deemed to be a part of this issuance.

Increase in Share Capital

Under the PRC Company Law, where a company is issuing new shares, resolutions shall be passed at shareholder’s general meeting in accordance with the articles of association in respect of the class and amount of the new shares, the issue price of the new shares, the commencement and end dates for the issue of the new shares and the class and amount of the new shares proposed to be issued to existing shareholders.

Public offering should be approved by CSRC. After the issue of new share the company has been paid up, the change must be registered with the company registration authorities and a public announcement must be made accordingly. Where an increase in registered capital of a company is made by means of an issue of new shares, the subscription of new shares by shareholders shall be made in accordance with the relevant provisions on the payment of subscription monies for the establishment of a company.

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Reduction of Share Capital

When a company needs to reduce its registered capital, it shall prepare a statement of financial position and a property list. The company shall inform its creditors within 10 days, from the date of resolution on reduction in registered capital, and publish an announcement in the newspaper within 30 days after the resolution approving the reduction of registered capital has been passed. Creditors may within 30 days after receiving the notice, or within 45 days of the public announcement if no notice has been received, require the company to pay its debts or provide guarantees covering the debts.

Repurchase of Shares

A company shall not purchase its own shares except under any of the following circumstances:

- (1) Reducing the registered capital of the company;
- (2) Merging with another company that holds its shares;
- (3) Using shares for employee stock ownership plan or equity incentives;
- (4) A shareholder requesting the company to purchase the shares held by him since he objects to a resolution of the shareholders' meeting on the combination or division of the company;
- (5) Using shares for converting convertible corporate bonds issued by the listed company;
- (6) It is necessary for a listed company to protect the corporate value and the rights and interests of shareholders.

A company purchasing its own shares under any of the circumstances set forth in items (1) and (2) of the preceding paragraph shall be subject to a resolution of the shareholders' meeting; and a company purchasing its own shares under any of the circumstances set forth in items (3), (5) and (6) of the preceding paragraph may, pursuant to the articles of association or the authorization of the shareholders' meeting, be subject to a resolution of a meeting of the board of directors at which more than two-thirds of directors are present.

After purchasing its own shares pursuant to the provisions of the first paragraph of this article, a company shall, under the circumstance set forth in item (1), cancel them within 10 days after the purchase; while under the circumstance set forth in either item (2) or (4), transfer or cancel them within six months; and while under the circumstance set forth in item (3), (5) or (6), aggregately hold not more than 10% of the total shares that have been issued by the company, and transfer or cancel them within three years.

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A listed company purchasing its own shares shall perform the obligation of information disclosure. A listed company purchasing its own shares under any of the circumstances set forth in items (3), (5) and (6) shall carry out trading in a public and centralized manner.

Transfer of Shares

Shares held by shareholders may be transferred legally. Under the PRC Company Law, a shareholder should effect a transfer of his shares on a stock exchange established in accordance with laws or by any other means as required by the State Council. Registered shares may be transferred after the shareholders endorse the back of the share certificates or in any other manner specified by the laws or administrative regulations. Following the transfer, the company shall enter the names and domiciles of the transferees into its share register. No changes of registration in the share register described above shall be effected during a period of 20 days prior to convening a shareholders’ general meeting or 5 days prior to the record date for the purpose of determining entitlements to dividend distributions, unless otherwise stipulated by laws on the registration of changes in the share register of listed companies. The transfer of bearer share certificates shall become effective upon the delivery of the certificates to the transferee by the shareholder. The Mandatory Provision provides that changes due to share transfer should not be made to shareholder registry within 30 days before a shareholders’ general meeting or within 5 days before the record date for the purpose of determining entitlements to dividend distributions.

Under the PRC Company Law, shares held by promoters may not be transferred within one year of the establishment of the company. Shares of the company issued prior to the [REDACTED] of shares may not be transferred within one year of the date of the company’s [REDACTED] on a stock exchange. Directors, supervisors and the senior management of a company shall declare to the company their shareholdings in it and any changes in such shareholdings. During their terms of office, they may transfer no more than 25% of the total number of shares they hold in the company every year. They shall not transfer the shares they hold within one year of the date of the company’s listing on a stock exchange, nor within six months after they leave their positions in the company. The articles of association may set out other restrictive provisions in respect of the transfer of shares in the company held by its directors, supervisors and the senior management.

Shareholders

Under the PRC Company Law and the Mandatory Provisions, the rights of holders of ordinary shares of a joint stock limited company include the right:

- (1) to receive dividends and profit distributions in any other form in proportion to their shareholdings;
- (2) to lawfully require, convene, preside over or attend general meetings either in person or by proxy and exercise the corresponding voting right;

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- (3) to supervise, present suggestions on or make inquiries about the operations of the Company;
- (4) to transfer, gift or pledge their shares in accordance with the laws, administrative regulations, departmental rules, normative documents and the listing rules of the stock exchange in the place where the stocks of the company are listed, and the articles of association;
- (5) to acquire relevant information according to the provisions of the articles of association, including the duplicate of the articles of association, share register, counterfoil of company debentures, minutes of shareholders’ general meetings, audited financial statements of the company, reports of directors, accounting firms and the Supervisory Committee;
- (6) in the event of the termination or liquidation of the company, to participate in the distribution of the remaining property of the company in proportion to the shares held by them;
- (7) to require the company to buy their shares in the event of their objection to resolutions of the general meeting concerning merger or division of the company; and
- (8) any other shareholders’ rights provided for in laws, administrative regulations, other regulatory documents and the articles of association.

The obligations of shareholders include the obligation to abide by the articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company’s debts and liabilities to the extent of the amount of his or her subscribed shares and any other shareholder obligation specified in the articles of association.

Shareholders’ General Meetings

The general meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law. The general meeting may exercise its powers:

- (1) to decide on the company’s operational objectives and investment plans;
- (2) to elect and remove the directors and supervisors (not being representative(s) of employees) and to decide on the matters relating to the remuneration of directors and supervisors;
- (3) to review and approve the reports of the board of directors;
- (4) to review and approve the reports of the supervisory board;

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- (5) to review and approve the company’s annual financial budgets and final accounts;
- (6) to review and approve the company’s profit distribution proposals and loss recovery proposals;
- (7) to decide on any increase or reduction of the company’s registered capital;
- (8) to decide on the issue and listing of corporate bonds and other securities;
- (9) to decide on merger, division, dissolution and liquidation of the company or change of its corporate form;
- (10) to amend the articles of association; and
- (11) to exercise any other authority stipulated in the articles of association.

A shareholders’ general meeting is required to be held once every year. An extraordinary general meeting is required to be held within two months of the occurrence of any of the following:

- (1) the number of directors is less than the number stipulated by the PRC Company Law or less than two-thirds of the number specified in the articles of association;
- (2) the outstanding losses of the company amounted to one-third of the company’s total paid-in share capital;
- (3) shareholders individually or in aggregate holding 10% or more of the company’s shares request the convening of an extraordinary general meeting;
- (4) the board deems necessary;
- (5) the supervisory board proposes to hold; or
- (6) any other circumstances as provided for in the articles of association.

A shareholders’ general meeting shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or is not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or is not performing his duties, a director nominated by half or more of the directors shall preside over the meeting. Where the board of directors is incapable of performing or is not performing its duties to convene the general meeting, the supervisory board shall convene and preside over shareholders’ general meeting in a timely manner. If the supervisory board fails to convene and

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preside over shareholders' general meeting, shareholders individually or in aggregate holding 10% or more of the company's shares for 90 days or more consecutively may unilaterally convene and preside over shareholders' general meeting.

In accordance with the PRC Company Law, a notice of the general meeting stating the date and venue of the meeting and the matters to be considered at the meeting shall be given to all shareholders 20 days before the meeting. A notice of extraordinary general meeting shall be given to all shareholders 15 days prior to the meeting. For the issuance of bearer share certificates, the time and venue of and matters to be considered at the meeting shall be announced 30 days before the meeting. A single shareholder who holds, or several shareholders who jointly hold, three percent or more of the shares of the company may submit an interim proposal in writing to the board of directors ten days before the general meeting is held. The board of directors shall notify other shareholders within two days upon receipt of the proposal, and submit the said interim proposal to the general meeting for deliberation. The contents of the interim proposal shall fall within the scope of powers of the general meeting, and the proposal shall have a clear agenda and specific matters on which resolutions are to be made. The general meeting shall not make any resolution in respect of any matter not set out in the above-mentioned two types of notices. Holders of bearer share certificates who wish to attend a general meeting shall deposit their share certificates with the company five days before the meeting and till the conclusion of the meeting.

Under the PRC Company Law, shareholders present at a shareholders' general meeting have one vote for each share they hold, save that the company's shares held by the company are not entitled to any voting rights.

An accumulative voting system may be adopted for the election of directors and supervisors at the general meeting pursuant to the provisions of the articles of association or a resolution of the general meeting. Under the accumulative voting system, each share shall be entitled to the number of votes equivalent to the number of directors or supervisors to be elected at the general meeting, and shareholders may consolidate their votes for one or more directors or supervisors when casting a vote.

Under the PRC Company Law, resolutions of the general meeting must be passed by more than half of the voting rights held by shareholders present at the meeting, with the exception of matters relating to merger, division or dissolution of the company, increase or reduction of registered share capital, change of corporate form or amendments to the articles of association, which in each case must be passed by at least two-thirds of the voting rights held by the shareholders present at the meeting. Where the PRC Company Law and the articles of association provide that the transfer or acquisition of significant assets or the provision of external guarantees by the company and the other matters must be approved by way of resolution of the general meeting, the directors shall convene a shareholders' general meeting promptly to vote on such matters by shareholders' general meeting.

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Minutes shall be prepared in respect of matters considered at the general meeting and the chairperson and directors attending the meeting shall endorse such minutes by signature. The minutes shall be kept together with the shareholders’ attendance register and the proxy forms.

According to the Mandatory Provisions, the increase or reduction of share capital, the issuance of shares of any class, warrants or other similar securities and bonds, the division, merger, dissolution and liquidation of the company, the amendments to the articles of association and any other matters, which, as resolved by way of an ordinary resolution of the general meeting, may have a material impact on the company and require adoption by way of a special resolution, must be approved through special resolutions by no less than two-thirds of the voting rights held by shareholders (including proxies thereof) present at the meeting.

The Mandatory Provisions require a special resolution to be passed at the general meeting and a class meeting to be held in the event of a variation or derogation of the class rights of a shareholder class. For this purpose, holders of domestic shares and H shares are deemed to be shareholders of different classes.

Board

A company shall have a board, which shall consist of 5 to 19 members. The term of a director shall be stipulated in the articles of association, provided that no term of office shall last for more than three years. A director may serve consecutive terms if re-elected. A director shall continue to perform his/her duties as a director in accordance with the laws, administrative regulations and the articles of association until a duly reelected director takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of directors results in the number of directors being less than the quorum.

Under the PRC Company Law, the board of directors may exercise its powers:

- (1) to convene shareholders’ general meetings and report on its work to the shareholders’ general meetings;
- (2) to implement the resolutions passed by the shareholders at the shareholders’ general meetings;
- (3) to decide on the company’s operational plans and investment proposals;
- (4) to formulate proposal for the company’s annual financial budgets and final accounts;

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- (5) to formulate the company's profit distribution proposals and loss recovery proposals;
- (6) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- (7) to formulate proposals for the merger, division or dissolution of the company or change of corporate form;
- (8) to decide on the setup of the company's internal management organs;
- (9) to appoint or dismiss the company's manager and decide on his/her remuneration and, based on the manager's recommendation, to appoint or dismiss any deputy general manager and financial officer of the company and to decide on their remunerations;
- (10) to formulate the company's basic management system; and
- (11) to exercise any other authority stipulated in the articles of association.

Meetings of the board of directors shall be convened at least twice each year. Notices of meeting shall be given to all directors and supervisors 10 days before the meeting. Interim board meetings may be proposed to be convened by shareholders representing more than 10% of the voting rights, more than one-third of the directors or the supervisory board. The chairman shall convene the meeting within 10 days of receiving such proposal, and preside over the meeting. The board may otherwise determine the means and the period of notice for convening an interim board meeting. Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board shall be passed by more than half of all directors. Each director shall have one vote for a resolution to be approved by the board. Directors shall attend board meetings in person. If a director is unable to attend for any reason, he/she may appoint another director to attend the meeting on his/her behalf by a written power of attorney specifying the scope of authorization.

If a resolution of the board of directors violates the laws, administrative regulations or the articles of association or resolutions of the general meeting, and as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director shall be relieved from that liability.

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Under the PRC Company Law, the following person may not serve as a director in a company:

- a person who is unable or has limited ability to undertake any civil liabilities;
- a person who has been convicted of an offense of corruption, bribery, embezzlement, misappropriation of property or destruction of the socialist market economic order, or who has been deprived of his political rights due to his crimes, in each case where less than five years have elapsed since the date of completion of the sentence;
- a person who has been a former director, factory manager or manager of a company or an enterprise that has entered into insolvent liquidation and who was personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- a person who has been a legal representative of a company or an enterprise that has had its business license revoked due to violations of the law or has been ordered to close down by law and the person was personally responsible, where less than three years have elapsed since the date of such revocation;
- a person who is liable for a relatively large amount of debts that are overdue.

Where a company elects or appoints a director to which any of the above circumstances applies, such election or appointment shall be null and void. A director to which any of the above circumstances applies during his/her term of office shall be released of his/her duties by the company.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions.

Under the PRC Company Law, the board shall appoint a chairman and may appoint a vice chairman.

The chairman and the vice chairman shall be elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and review the implementation of board resolutions. The vice chairman shall assist the chairman to perform his/her duties. Where the chairman is incapable of performing or is not performing his/her duties, the duties shall be performed by the vice chairman. Where the vice chairman is incapable of performing or is not performing his/her duties, a director nominated by more than half of the directors shall perform his/her duties.

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Supervisory Board

A company shall have a supervisory board composed of not less than three members. The supervisory board shall consist of representatives of the shareholders and an appropriate proportion of representatives of the company’s staff, of which the proportion of representatives of the company’s staff shall not be less than one-third, and the actual proportion shall be determined in the articles of association. Representatives of the company’s staff at the supervisory board shall be democratically elected by the company’s staff at the staff representative assembly, general staff meeting or otherwise. Directors and senior management shall not act concurrently as supervisors.

Each term of office of a supervisor is three years and he/she may serve consecutive terms if reelected. A supervisor shall continue to perform his/her duties as a supervisor in accordance with the laws, administrative regulations and the articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of supervisors results in the number of supervisors being less than the quorum.

The supervisory board may exercise its powers:

- (1) to review the company’s financial position;
- (2) to supervise the directors and senior management in their performance of their duties and to propose the removal of directors and senior management who have violated laws, administrative regulations, the articles of association or resolutions of the shareholders’ general meetings;
- (3) when the acts of a director or senior management personnel are detrimental to the company’s interests, to require the director and senior management to correct these acts;
- (4) to propose the convening of extraordinary shareholders’ general meetings and to convene and preside over shareholders’ general meetings when the board fails to perform the duty of convening and presiding over shareholders’ general meetings under the PRC Company Law;
- (5) to submit proposals to the shareholders’ general meetings;
- (6) to bring actions against directors and senior management personnel pursuant to the relevant provisions of the PRC Company Law; and
- (7) to exercise any other authority stipulated in the articles of association.

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Supervisors may be present at board meetings and make inquiries or proposals in respect of the resolutions of the board. The supervisory board may investigate any irregularities identified in the operation of the company and, when necessary, may engage an accounting firm to assist its work at the cost of the company.

The supervisory board shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the supervisory board shall be elected by more than half of the supervisors. According to the Reply of the Overseas Listing Department of CSRC and the Production System Department of the State Commission for Restructuring the Economic System on Opinions Concerning the Supplement and Amendment to Articles of Association by Companies to Be Listed in Hong Kong (《中國證監會海外上市部、國家體改委生產體制司關於到香港上市公司對公司章程作補充修改的意見的函》), which is promulgated and implemented on April 3, 1995, the chairman of the supervisory board shall be selected by more than two-thirds of the supervisors.

The chairman of the supervisory board shall convene and preside over supervisory board meetings. Where the chairman of the supervisory board is incapable of performing or is not performing his/her duties, the vice chairman of the supervisory board shall convene and preside over supervisory board meetings. Where the vice chairman of the supervisory board is incapable of performing or is not performing his/her duties, a supervisor recommended by more than half of the supervisors shall convene and preside over supervisory board meetings.

Manager and Senior Management

Under the PRC Company Law, a company shall have a manager who shall be appointed or removed by the board of directors. The manager, who reports to the board of directors, may exercise his/her powers:

- (1) to manage the production and operation and administration of the company and arrange for the implementation of the resolutions of the board of directors;
- (2) to arrange for the implementation of the company’s annual operation plans and investment proposals;
- (3) to formulate proposals for the establishment of the company’s internal management organs;
- (4) to formulate the fundamental management system of the company;
- (5) to formulate the company’s specific rules and regulations;
- (6) to recommend the appointment or dismissal of any deputy manager and any financial officer of the company;

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- (7) to appoint or dismiss management personnel (other than those required to be appointed or dismissed by the board of directors); and
- (8) to exercise any other authority granted by the board of directors or the articles of association.

Other provisions in the articles of association on the manager’s powers shall also be complied with. The manager shall be present at meetings of the board of directors. However, the manager shall have no voting rights at meetings of the board of directors unless he/she concurrently serves as a director.

According to the PRC Company Law, senior management refers to the manager, deputy manager, financial officer, secretary to the board of a listed company and other personnel as stipulated in the articles of association.

Duties of Directors, Supervisors and Senior Management

Directors, supervisors and senior management are required under the PRC Company Law to comply with the relevant laws, administrative regulations and the articles of association, and carry out their duties of loyalty and diligence.

Directors, supervisors and senior management are prohibited from abusing their authority in accepting bribes or other unlawful income and from misappropriating the company’s property.

Directors and senior management are prohibited from:

- (1) misappropriating company funds;
- (2) depositing company funds into accounts under their own names or the names of other individuals to deposit;
- (3) loaning company funds to others or providing guarantees in favor of others supported by company’s property in violation of the articles of association or without approval of the general meeting or the board of directors;
- (4) entering into contracts or transactions with the company in violation of the articles of association or without approval of the general meeting;
- (5) using their position to procure business opportunities for themselves or others that should have otherwise been available to the company or operating businesses similar to that of the company for their own benefits or on behalf of others without approval of the general meeting;

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- (6) accepting commissions paid by a third party for transactions conducted with the company;
- (7) unauthorized divulgence of confidential information of the company; and
- (8) other acts in violation of their duty of loyalty to the company.

Income generated by directors or senior management in violation of aforementioned shall be returned to the company.

A director, supervisor or senior management who contravenes law, administrative regulation or articles of association in the performance of his/her duties resulting in any loss to the company shall be liable to the company for compensation.

Where a director, supervisor or senior management is required to attend a shareholders' general meeting, such director, supervisor or senior management shall attend the meeting and answer the inquiries from shareholders. Directors and senior management shall furnish all true information and data to the supervisory board, without impeding the discharge of duties by the supervisory board or supervisors.

Where a director or senior management contravenes law, administrative regulation or articles of association in the performance of his/her duties resulting in any loss to the company, shareholder(s) holding individually or in aggregate no less than 1% of the company's shares consecutively for at least 180 days may request in writing that the supervisory board institute litigation at a people's court on its behalf. Where the supervisory board violates the laws or administrative regulations or the articles of association in the discharge of its duties resulting in any loss to the company, such shareholder(s) may request in writing that the board of directors institute litigation at a people's court on its behalf. If the supervisory board or the board of directors refuses to institute litigation after receiving this written request from the shareholder(s), or fails to institute litigation within 30 days of the date of receiving the request, or in case of emergency where failure to institute litigation immediately will result in irrecoverable damage to the company's interests, such shareholder(s) shall have the power to institute litigation directly at a people's court in its own name for the company's benefit. For other parties who infringe the lawful interests of the company resulting in loss to the company, such shareholder(s) may institute litigation at a people's court in accordance with the procedure described above. Where a director or senior management contravenes any laws, administrative regulations or the articles of association in infringement of shareholders' interests, a shareholder may also institute litigation at a people's court.

The Special Regulations and the Mandatory Provisions provide that a company's directors, supervisors, manager and other senior management shall have duty of loyalty to the company. They are required to faithfully perform their duties, to protect the interests of the company and not to use their positions in the company for their own benefits. The Mandatory Provisions contain detailed stipulations on these duties.

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Finance and Accounting

A company shall establish its own financial and accounting systems according to the laws, administrative regulations and the regulations of the competent financial departments of the State Council. At the end of each financial year, a company shall prepare a financial report which shall be audited by an accounting firm in accordance with the laws. The financial and accounting reports shall be prepared in accordance with the laws, administrative regulations and the regulations of the financial departments of the State Council.

The company's financial reports shall be made available for shareholders' inspection at the company 20 days before the convening of an annual general meeting. A joint stock limited company that makes public stock offerings shall publish its financial reports.

When distributing each year's profits after taxation, the company shall set aside 10% of its profits after taxation for the company's statutory common reserve fund until the fund has reached 50% or more of the company's registered capital. When the company's statutory common reserve fund is not sufficient to make up for the company's losses for the previous years, the current year's profits shall first be used to make good the losses before any allocation is set aside for the statutory common reserve fund. After the company has made allocations to the statutory common reserve fund from its profits after taxation, it may, upon passing a resolution at a shareholders' general meeting, make further allocations from its profits after taxation to the discretionary common reserve fund. After the company has made good its losses and made allocations to its discretionary common reserve fund, the remaining profits after taxation shall be distributed in proportion to the number of shares held by the shareholders, except for those which are not distributed in a proportionate manner as provided by the articles of association.

Profits distributed to shareholders by a resolution of a shareholders' general meeting or the board of directors before losses have been made good and allocations have been made to the statutory common reserve fund in violation of the requirements described above must be returned to the company. The company shall not be entitled to any distribution of profits in respect of shares held by it.

The premium over the nominal value of the shares of the company earned from the issue of share and other income as required by CSRC to be treated as the capital reserve fund shall be accounted for as the capital reserve fund. The common reserve fund of a company shall be applied to make good the company's losses, expand its business operations or increase its capital. The capital reserve fund, however, shall not be used to make good the company's losses. Upon the transfer of the statutory common reserve fund into capital, the balance of the fund shall not be less than 25% of the registered capital of the company before such transfer.

The company shall have no accounting books other than the statutory books. The company's assets shall not be deposited in any account opened under the name of an individual.

APPENDIX IV

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Appointment and Retirement of Auditors

Pursuant to the PRC Company Law, the engagement or dismissal of an accounting firm responsible for the company’s auditing shall be determined by a shareholders’ general meeting or the board of directors in accordance with the articles of association. The accounting firm should be allowed to make representations when the general meeting or the board of directors conduct a vote on the dismissal of the accounting firm. The company should provide true and complete accounting evidence, accounting books, financial and accounting reports and other accounting information to the engaged accounting firm without any refusal or withholding or falsification of information.

The Special Regulations require a company to engage an independent qualified accounting firm to audit the company’s annual reports and to review and check other financial reports of the company. The accounting firm’s term of office shall commence from the end of the shareholders’ annual general meeting to the end of the next shareholders’ annual general meeting.

Profit Distribution

According to the PRC Company Law, a company shall not distribute profits before losses are covered and the statutory common reserve fund is provided. The Special Regulations require that any dividend and other distribution to shareholders of overseas-listed foreign shares shall be declared and calculated in RMB and paid in foreign currency.

Under the Mandatory Provisions, the company shall commission a collecting agent for holders of foreign shares listed overseas. A collecting agent shall collect dividends on foreign capital shares and other payable items from the company on behalf of relevant shareholders. A collecting agent commissioned by the company shall meet the requirements of the law in the place where the company is listed or relevant regulations of the stock exchange.

Amendments to the Articles of Association

Pursuant to PRC Company Law, the resolution of a shareholders’ general meeting regarding any amendment to a company’s articles of association requires affirmative votes by at least two-thirds of the votes held by shareholders attending the meeting. Pursuant to the Mandatory Provisions, the company may amend its articles of association according to the laws, administrative regulations and the articles of association. The amendment to articles of association involving content of the Mandatory Provisions will only be effective upon approval of the department in charge of company examination and approval and the securities regulatory department of the State Council authorized by the State Council, while the amendment to articles of association involving matters of company registration must be registered with the relevant authority in accordance with applicable laws.

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SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Dissolution and Liquidation

Under the PRC Company Law, a company shall be dissolved for any of the following reasons:

- (1) the term of its operation set out in the articles of association has expired or other events of dissolution specified in the articles of association have occurred;
- (2) the shareholders’ general meeting has resolved to dissolve the company;
- (3) the company is dissolved by reason of its merger or division;
- (4) the business license of the company is revoked or the company is ordered to close down or to be dissolved in accordance with the laws;
- (5) the company is dissolved by a people’s court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all shareholders of the company, on the grounds that the operation and management of the company has suffered serious difficulties that cannot be resolved through other means, rendering ongoing existence of the company a cause for significant losses to the shareholders.

In the event of paragraph 1 above, the company may carry on its existence by amending its articles of association. The amendments to the articles of association in accordance with the provisions described above shall require the approval of more than two-thirds of voting rights of shareholders attending a shareholders’ general meeting.

Where the company is dissolved under the circumstances set forth in paragraph 1, 2, 4 or 5 above, it should establish a liquidation committee within 15 days of the date on which the dissolution matter occurs. The liquidation committee shall be composed of directors or any other person determined by a shareholders’ general meeting. If a liquidation committee is not established within the prescribed period, the company’s creditors may file an application with a people’s court to appoint relevant personnel to form a liquidation committee to administer the liquidation. The people’s court should accept such application and form a liquidation committee to conduct liquidation in a timely manner.

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SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

The liquidation committee may exercise following powers during the liquidation:

- (1) to sort out the company's assets and to prepare a statement of financial position and an inventory of assets, respectively;
- (2) to notify creditors by notice or public notices;
- (3) to deal with any outstanding business related to the liquidation;
- (4) to pay outstanding tax together with any tax arising during the liquidation process;
- (5) to settle claims and liabilities;
- (6) to handle the company's remaining assets after its debts have been paid off;
- (7) to represent the company in any civil procedures.

The liquidation committee shall notify the company's creditors within 10 days of its establishment, and publish an announcement in newspapers within 60 days.

A creditor shall lodge his claim with the liquidation committee within 30 days of receipt of the notification or within 45 days of the date of the announcement if he has not received any notification. A creditor shall report all matters relevant to his claimed creditor's rights and furnish relevant evidence. The liquidation committee shall register such creditor's rights. The liquidation committee shall not make any settlement to creditors during the period of the claim.

Upon disposal of the company's property and preparation of the required statement of financial position and inventory of assets, the liquidation committee shall draw up a liquidation plan and submit this plan to a shareholders' general meeting or a people's court for endorsement. The remaining part of the company's assets, after payment of liquidation expenses, employee wages, social insurance expenses and statutory compensation, outstanding taxes and the company's debts, shall be distributed to shareholders in proportion to shares held by them. The company shall continue to exist during the liquidation period, although it cannot conduct operating activities that are not related to the liquidation. The company's property shall not be distributed to shareholders before repayments are made in accordance with the requirements described above.

Upon liquidation of the company's property and preparation of the required statement of financial position and inventory of assets, if the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must apply to a people's court for a declaration of bankruptcy in accordance with the laws. Following such declaration by the people's court, the liquidation committee shall hand over the administration of the liquidation to the people's court.

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Upon completion of the liquidation, the liquidation committee shall prepare a liquidation report and submit it to the shareholders’ general meeting or a people’s court for confirmation of its completion. Following such confirmation, the report shall be submitted to the company registration authority to cancel the company’s registration, and an announcement of its termination shall be published. Members of the liquidation committee are required to discharge their duties in good faith and perform their obligation in compliance with laws. Members of the liquidation committee shall be prohibited from abusing their authority in accepting bribes or other unlawful income and from misappropriating the company’s properties. Members of the liquidation committee are liable to indemnify the company and its creditors in respect of any loss arising from their willful or gross negligence.

Liquidation of a company declared bankrupt according to laws shall be processed in accordance with the laws on corporate bankruptcy.

Overseas Listing

Pursuant to the Special Regulations, the shares of a company shall only be listed overseas after obtaining approval of CSRC to list its shares overseas.

According to Rule 2(6) of the Regulatory Guidelines for the Application Documents and Examination Procedures for the Overseas Share Issuance and Listing by Joint Stock Companies (《關於股份有限公司境外發行股票和上市申報文件及審核程序的監管指引》) promulgated by CSRC (effective from January 1, 2013), the approval documents for overseas stock issuance and listing by the company granted by CSRC shall be valid for a period of 12 months.

Loss of Share Certificates

A shareholder may, in accordance with the public notice procedures set out in the PRC Civil Procedure Law, apply to a people’s court if his share certificate(s) in registered form is either stolen, lost or destroyed, for a declaration that such certificate(s) will no longer be valid. After the people’s court declares that such certificate(s) will no longer be valid, the shareholder may apply to the company for the issue of a replacement certificate(s).

The Mandatory Provisions provide that the loss of share certificates of overseas-listed foreign shares or of H share certificates shall be handled in accordance with the law of the place where the original ledger of foreign capital shareholders is kept, with the rules of the stock exchange or other relevant regulations.

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Merger and Division

A merger agreement shall be signed by merging companies and the involved companies shall prepare respective statements of financial position and inventory of assets. The companies shall within 10 days of the date of passing the resolution approving the merger notify their respective creditors and publicly announce the merger in newspapers within 30 days. A creditor may, within 30 days of receipt of the notification, or within 45 days of the date of the announcement if he has not received the notification, request the company to settle any outstanding debts or provide relevant guarantees. In case of a merger, the credits and debts of the merging parties shall be assumed by the surviving or the new company.

In case of a division, the company’s assets shall be divided and a statement of financial position and an inventory of assets shall be prepared. When a resolution regarding the company’s division is approved, the company should notify all its creditors within 10 days of the date of passing such resolution and publicly announce the division in newspapers within 30 days. Unless an agreement in writing is reached with creditors before the company’s division in respect of the settlement of debts, the liabilities of the company which have accrued prior to the division shall be jointly borne by the divided companies.

Changes in the business registration of the companies as a result of the merger or division shall be registered with the relevant administration authority for industry and commerce.

In accordance with the laws, cancelation of a company shall be registered when a company is dissolved and incorporation of a company shall be registered when a new company is incorporated.

APPENDIX V

SUMMARY OF ARTICLES OF ASSOCIATION

The principal objective of this summary is to provide potential investors with an overview of the Articles of Association. As the information set out below is in summary form, it does not contain all the information that may be important to potential investors. A copy of the full Chinese text of the Articles of Association is available for inspection as mentioned in the section headed “Documents Delivered to the Registrar of Companies and Available on Display” in Appendix VII.

The Articles of Association was approved by special resolutions at a general meeting of the Company on 16 July 2021, and shall take effect on the day when the overseas listed foreign shares of the Company are [REDACTED] on the Hong Kong Stock Exchange. The Articles of Association complies with the Company Law, the Securities Law, the Special Provisions, the Mandatory Provisions, and the Letter of Opinions on Supplements and Amendments to the Articles of Association of Companies Listed in Hong Kong from the Overseas Listing Division of the CSRC and the Production Systems Division of the State Commission for Restructuring the Economic Systems.

Shares and Registered Capital

The Company shall have ordinary shares at all times. The Company may set other types of shares subject to its needs, upon approval by authorities that are authorized by the State Council.

All shares issued by the Company are shares with par value, which it shall have a par value of RMB1 per Share.

The Company shall issue shares in an open, fair and just manner, and each Share of the same class shall have the equal rights. The issuing conditions and price for each Share of the same class issued at the same time shall be the same and each Share subscribed by any entity or individual shall be subscribed at the same price. The Domestic Shares and overseas listed foreign shares shall rank *Pari passu* with each other in respect of dividends and other distributions.

Subject to approval of the Company’s plans to issue overseas listed foreign shares and Domestic Shares by the securities regulatory authorities of the State Council, the Board of the Company may make arrangement to implement such plans for the issue of such shares. The Company may separately implement its plan for issuing overseas listed foreign shares and Domestic Shares pursuant to the preceding provision within 15 months from the date of approval of the securities regulatory authorities of the State Council or within the effective date of such approved documents.

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Unless otherwise provided by the PRC laws, administrative regulations and applicable requirements of the securities regulatory authorities in the place where the shares of the Company are listed, paid-up shares of the Company are freely transferable and are free of lien. Transfer of overseas listed foreign shares listed in Hong Kong shall be registered with the share registrar in Hong Kong appointed by the Company.

Increment, Reduction and Repurchase of Shares

Increase in Capital

In light of the demands of operation and business development and based on the relevant laws, regulations and the Articles, after obtaining approval of the general meeting by way of special resolution(s), the Company may increase its share capital through the following ways:

- (I) offering new shares to the public;
- (II) allotting new shares to existing shareholders;
- (III) issuing bonus shares to existing shareholders;
- (IV) private placement of new shares;
- (V) capitalizing the reserve funds;
- (VI) any other means permitted by laws, administrative regulations and relevant regulatory authorities.

After the Company’s increase of share capital by means of the issuance of new shares has been approved in accordance with the provisions of the Articles of Association, the issuance thereof should be made in accordance with the procedures set out in the relevant laws and administrative regulations of the State.

Reduction of Capital

The Company may reduce its registered capital in accordance with the Articles of Association. The reduction of registered capital shall follow the procedures set forth in the Company Law and other relevant regulations and the Articles of Association.

The Company shall prepare a balance sheet and an inventory of property when it reduces its registered capital.

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The Company shall notify its creditors within 10 days from the adoption of the resolution to reduce its registered capital and shall publish an announcement in newspapers within 30 days from the date of such resolution. Creditors shall, within 30 days after the receipt of the notice or within 45 days from the date of announcement for those who have not received the notice, be entitled to require the Company to pay off its debt in full or to provide corresponding guarantee for repayment.

The registered capital of the Company following the reduction shall not fall below the minimum statutory requirement.

Repurchase of Shares

The Company may, subject to the laws, administrative regulations, Listing Rules of the Hong Kong Stock Exchange, departmental regulations and the Articles of Association and upon approval of the competent authority of China, repurchase its shares in the following circumstances:

- (I) to cancel shares for the purpose of the reduction of registered capital of the Company;
- (II) to merge with other companies holding shares of the Company;
- (III) to grant shares for employee stock ownership plan or share incentives;
- (IV) to be requested to repurchase the shares held by the shareholders who object to the resolutions adopted at the general meeting for the merger or division of the Company;
- (V) to use shares to convert corporate bonds issued by listed companies that can be converted into stocks;
- (VI) where it is necessary for a listed company to safeguard its value and the rights and interests of its shareholders;
- (VII) other circumstances permitted by the laws, administrative regulations and regulatory authorities.

The Company may, upon the approval of the relevant state governing authorities, repurchase the shares of the Company as mentioned in the above items (I), (II) or (IV) in one of the following ways:

- (I) making a general offer to repurchase shares from all shareholders in proportion to their shareholdings;
- (II) repurchasing shares through open transactions in the stock exchange;

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(III) repurchasing shares based on an off-market agreement;

(IV) in other circumstances permitted and approved by laws, administrative regulations, and regulatory authorities.

The Company may repurchase the shares of the Company as mentioned in items (III), (V) and (VI) above through open and centralized trading only.

For repurchase of the shares of the Company pursuant of items (I) and (II) above, it shall be subject to the approval at a general meeting. For repurchase of the shares of the Company pursuant to items (III), (V) or (VI), it shall be subject to the authorization at the general meeting, and the resolution at a Board meeting attended by more than two-thirds of the Directors.

When repurchasing shares based on an off-market agreement, the Company shall obtain prior approval at the general meeting according to the Articles of Association. Where prior approval has been obtained from the shareholders in a general meeting in the same manner, the Company may release or modify the contract entered into in the aforesaid manner or waive any rights granted under such contract.

“Contract to repurchase shares” referred to in the preceding paragraph includes (but not limiting to) an agreement to become obliged to repurchase or an acquisition of the right to repurchase shares. The contract to repurchase its shares or any rights provided therein shall not be assigned by the Company.

The Company shall fulfill its information disclosure obligations in accordance with relevant laws when repurchasing its shares. Where the Company cancels any shares resulting from the repurchase in accordance with the laws, the Company shall file an application for the registration of the change in its registered capital with the original company registration authority and issue an announcement thereof. The total par value of the cancelled shares shall be deducted from the registered capital of the Company.

Unless the Company is in the course of liquidation, it shall comply with the following provisions when repurchasing its outstanding shares in issue:

- (I) Where the Company repurchases its own shares at par value, payment shall be deducted from the book balance of distributable profits of the Company and the proceeds from the issue of new shares for the purpose of repurchasing the existing shares;

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(II) Where the Company repurchases its own shares at a price higher than the par value, the portion equivalent to the par value shall be deducted from the book balance of the distributable profits of the Company and the proceeds from the issue of new shares for the purpose of repurchasing the existing shares, and the premium shall be handled as follows:

1. if the shares repurchased are issued at par value, the payment shall be deducted from the book balance of the distributable profits of the Company;
2. if the shares repurchased were issued at a price higher than the par value, payment shall be deducted from the book balance of the distributable profits of the Company and the proceeds from the issue of new shares for the purpose of repurchasing the existing shares, provided that the amount deducted from the proceeds from the issue of new shares shall neither exceed the aggregate premium from the issue of the existing shares repurchased nor shall it exceed the amount (including the premiums from the issue of new shares) in the premium account or the capital reserve account of the Company at the repurchase.

(III) Payments for the following purposes shall be made out of the Company's distributable profits:

1. acquisition of the right to repurchase shares of the Company;
2. modification of any contract to repurchase shares of the Company;
3. release of any of the Company's obligation under any contract for the repurchase of its shares.

(IV) After the total par value of the cancelled shares is deducted from the Company's registered capital in accordance with the relevant regulations, the amount deducted from the distributable profits for the repurchase of the shares at par value shall be included in the Company's premium account or capital reserve account.

Where laws, administrative regulations and relevant regulatory authorities have any other provisions in respect of the financial arrangement related to the aforementioned share buy-back, such provisions shall prevail.

Financial Assistance for Acquisition of Shares of the Company

Neither the Company nor its subsidiaries shall at any time provide any financial assistance in any form to purchasers or prospective purchasers of shares of the Company. The said purchasers of shares of the Company shall include persons who directly or indirectly assume obligations as a result of purchasing shares of the Company.

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Neither the Company nor its subsidiaries shall at any time provide any financial assistance in any form to the above obligors in order to reduce or release them from their obligations.

The following acts shall not be prohibited:

- (I) the provision of financial assistance by the Company where the financial assistance is given in good faith in the interest of the Company, and the principal purpose of giving the financial assistance is not for the acquisition of shares of the Company, or the giving of the financial assistance is an incidental part of a master plan of the Company;
- (II) the lawful distribution of the Company's assets by way of dividend;
- (III) the allotment of bonus shares as dividends;
- (IV) a reduction in registered capital, a repurchase of shares or a reorganization of the share capital structure of the Company effected in accordance with the Articles;
- (V) the provision of loans by the Company within its scope of business and in the ordinary course of its business (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of the distributable profits of the Company);
- (VI) the provision of funds by the Company for contributions to employee share schemes (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of the distributable profits of the Company).

"Financial assistance" referred to in the Articles of Association includes (without limitation to) the following:

- (I) gift;
- (II) guarantee (including the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the obligor), compensation (other than compensation in respect of the Company's own default), release or waiver of any rights;
- (III) provision of loan or any other contract under which the obligations of the Company are to be fulfilled before the obligations of another party, and a change in the parties to, or the assignment of rights arising under, such loan or contract;

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- (IV) any other form of financial assistance given by the Company when the Company is insolvent or has no net assets or when its net assets would thereby be reduced to a material extent.

“Assume obligations” referred to in the Articles of Associations includes the incurrence of obligations by the changing of the obligor’s financial position by way of contract or the making of an arrangement (whether enforceable or not, and whether made on its own account or with any other persons), or by any other means.

Transfer of Shares

Shares held by promoters of the Company may not be transferred within one year after the Company’s establishment.

The Directors, Supervisors and senior management members of the Company shall report to the Company the number of shares held by them in the Company and the subsequent changes in their shareholdings. The number of shares which such persons may transfer every year during their terms of office shall not exceed 25% of the total number of the Company’s shares in his/her possession. Such personnel shall not transfer the Company’s shares in their possession within half year after they have terminated their employment with the Company.

The restrictions shall comply with the relevant provisions of the Listing Rules of the Hong Kong Stock Exchange if H Shares are involved.

Register of Members

The Company shall keep a register of members containing the following particulars:

- (I) the name, address (place of domicile), occupation or nature of business of each shareholder;
- (II) the class and number of shares held by each shareholder;
- (III) the amount paid-up or payable in respect of shares held by each shareholder;
- (IV) the share certificate numbers of the shares held by each shareholder;
- (V) the date on which each shareholder was registered as a shareholder;
- (VI) the date on which any shareholder ceased to be a shareholder.

Unless there is evidence to the contrary, the register of members shall be the sufficient evidence of the shareholders’ shareholding in the Company.

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The Company may, in accordance with the mutual understanding and agreements made between the securities regulatory authorities of the State Council and overseas securities regulatory authorities, keep its original register of holders of overseas listed foreign shares outside of the PRC and appoint overseas agent(s) to manage such register. The register of shareholders of overseas listed foreign shares listed in Hong Kong Stock Exchange shall be maintained in Hong Kong.

The Company shall maintain a duplicate of the register of holders of overseas listed foreign shares at its place of domicile. The appointed overseas agent(s) shall ensure consistency between the original version and the duplicate register of holders of overseas listed foreign shares at all times.

If there is any inconsistency between the original and the duplicate register of holders of overseas listed foreign shares, the original version shall prevail.

The Company shall maintain a complete register of members. The register of members shall include the following parts:

- (I) the register of members which is maintained at the Company’s place of domicile (other than those register of members which are described in items (II) and (III));
- (II) the register of members in respect of the holders of overseas listed foreign shares of the Company which is maintained at the place where the overseas stock exchange on which the shares are listed is located;
- (III) the register of members which is maintained in such other place as the Board may consider necessary for the purpose of [REDACTED] of the Company’s shares.

Different parts of the register of members shall not overlap one another. No transfer of the shares registered in any part of the register shall, during the existence of share registration, be registered in any other parts of the register of members.

Alteration or rectification of each part of the register of members shall be made in accordance with the laws of the place where that part of the register of members is maintained.

When the Company convenes a general meeting, distributes dividends, enters into liquidation and engages in other activities that involve confirmation of equity interests, the Board shall determine a specific day for confirmation of equity interests. Shareholders named in the register of members by the end of the date of confirmation of equity interests shall be the shareholders of the Company.

Any person who objects to the register of members and requests to have his/her name included in or removed from the register of members may apply to the court of relevant jurisdiction to amend the register of members.

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Any shareholder who is registered in, or any person requests to have his/her name entered into, the register of members may, if his/her share certificate (the “**Original Certificate**”) is lost, apply to the Company for a replacement share certificate in respect of such shares.

The Company shall not have any obligation to indemnify any person for any damages suffered thereby arising out of the cancellation of the Original Certificate or the issuance of a replacement share certificate, unless such person concerned can prove that the Company has committed a fraudulent act.

In the case of anonymous warrant issued by the Company, no new warrant shall be issued to replace the lost warrant unless the Company is convinced that the original warrant has been destroyed beyond reasonable doubt.

Rights and Obligations of Shareholders

Shareholders

A shareholder of the Company is a person who lawfully holds shares of the Company and whose name is entered in the register of members.

A shareholder shall enjoy rights and assume obligations in accordance with the class and number of shares he/she holds. Shareholders holding the same class of shares shall enjoy the same rights and assume the same obligations.

The Company shall not exercise any right to freeze or otherwise infringe on the rights attached to any shares held by any person who enjoys interests directly or indirectly merely for the reason that he/she has not disclosed his/her interests to the Company.

Rights and Obligations of Shareholders

Holders of ordinary shares of the Company shall enjoy the following rights:

- (I) to be entitled to dividends and other forms of distributions in proportion to the number of shares held;
- (II) to lawfully request, convene, hold, attend or appoint a proxy to attend general meetings, and to speak at the shareholders general meeting and to exercise voting rights as per their shareholdings;
- (III) to supervise and manage the business operations of the Company, and to make suggestions or enquiries accordingly;
- (IV) to transfer, donate or pledge shares held by them in accordance with laws, administrative regulations and the Articles of Association;

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(V) to obtain relevant information in accordance with the Articles of Association, including:

1. to obtain a copy of the Articles of Association after paying a reasonable charge;
2. to acquire the right to inspect and, after paying a reasonable charge, the right to inspect and reproduce:
 - (1) copies of all parts of the register of members;
 - (2) relevant personal data of the Company’s Directors, Supervisors, general manager and other senior management members, including:
 - (a) present and former name and alias;
 - (b) principal address (domicile);
 - (c) nationality;
 - (d) full-time and all other part-time occupations and positions;
 - (e) identification certificate document and its number.
 - (3) reports on the state of the issued share capital of the Company;
 - (4) the latest audited financial statements of the Company, and the reports of the Board of Directors, auditors and the Supervisory Committee;
 - (5) special resolutions of the Company;
 - (6) reports on the number and par value of each class of shares in relation to any repurchase by the Company of its own shares since the last fiscal year, all the expenses paid therefor, and the highest and lowest prices paid for each class of securities repurchased (by Domestic Shares and foreign shares);
 - (7) receipts of corporate bonds, minutes of the general meetings (for inspection by shareholders only), special resolutions at general meetings, and resolutions at meetings of the Board of Directors and the Supervisory Committee;
 - (8) copy of the latest annual report that has been filed with the PRC Administration of Market Regulation or any other competent authorities.

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The Company shall keep at its Hong Kong address the documents as referred to in (1) to (8) (excluding (2)) above and other applicable documents as per the requirements of the Listing Rules of Hong Kong Stock Exchange for free reference of the public and holders of overseas listed foreign shares.

The Company may refuse to provide any contents if the contents so inspected and reproduced involve trade secrets and insider information of the Company and personal privacy of relevant persons.

- (VI) to participate in the distribution of the remaining assets of the Company based on the number of shares held in the event of the Company’s dissolution or liquidation;
- (VII) to demand the Company to acquire their shares (for shareholders who object to resolutions on the merger or division of the Company adopted at a general meeting);
- (VIII) with respect to shareholders who individually or jointly hold 3% or more of the shares of the Company, the right to propose and submit extraordinary resolutions to the Board of Directors in writing 10 days before the date of the general meeting;
- (IX) the right to inspect the Hong Kong branch register of members of the Company, but the Company may close the register in terms equivalent to section 632 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong);
- (X) to have other rights conferred by laws, administrative regulations, departmental rules or the Articles of Association.

Holders of ordinary shares of the Company shall assume the following obligations:

- (I) to abide by laws, administrative regulations and the Articles of Association;
- (II) to pay subscription monies according to the number of shares subscribed and the method of subscription;
- (III) to be responsible for the Company to the extent of the shares they hold;
- (IV) not to divest the shares after approval and registration by the Company, unless required by laws and regulations;
- (V) other obligations imposed by laws, administrative regulations and the Articles of Association.

Unless otherwise specified, shareholders are not liable to make any further contribution to the share capital other than as agreed by the subscriber of the relevant shares on subscription.

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Restrictions on the Rights of Controlling Shareholders

In addition to obligations imposed by laws and administrative regulations or required by the listing rules of stock exchanges on which the Company’s shares are listed, a Controlling Shareholder shall not exercise his/her voting rights with respect to the following matters in detriment to the interests of all or some of the shareholders of the Company:

- (I) relieving a Director or Supervisor of his/her duty to act honestly in the best interests of the Company;
- (II) approving the expropriation by a Director or Supervisor (for his/her own benefit or for the benefit of another person), in any guise, of the Company’s assets, including (but not limited to) opportunities beneficial to the Company;
- (III) approving the expropriation by a Director or Supervisor (for his/her own benefit or for the benefit of another person) of the individual rights of other shareholders, including (but not limited to) rights to distributions and voting rights, save for a company restructuring submitted to the general meeting for approval in accordance with the Articles of Association.

General Meeting

Functions and Power of the General Meetings

The general meeting is the organ of authority of the Company, which shall exercise the following functions and powers in accordance with laws:

- (I) to decide on the Company’s operational policies and investment plans;
- (II) to elect and replace Directors, and Supervisors who are not representatives of the employees, and to decide on matters relevant to remuneration of Directors and Supervisors;
- (III) to examine and approve reports made by the Board of Directors;
- (IV) to examine and approve reports made by the Supervisory Committee;
- (V) to examine and approve the annual financial budgets and final accounts of the Company;
- (VI) to examine and approve the profit distribution plans and loss recovery plans of the Company;
- (VII) to adopt resolutions on any increase or reduction of the Company’s registered capital;

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- (VIII) to adopt resolutions on the issuance of bonds, any kind of shares, warrants or other similar securities by the Company;
- (IX) to adopt resolutions on matters such as the merger, division, dissolution, liquidation or change in corporate form of the Company;
- (X) to amend the Articles of Association;
- (XI) to review proposals raised by shareholders who individually or jointly hold more than 3% of the Company’s shares with voting rights;
- (XII) to decide on the appointment, re-appointment and dismissal of accounting firms;
- (XIII) to consider and approve external guarantees subject to the approval of the general meeting;
- (XIV) to consider acquisitions, disposals of material assets or provision of guarantee of the Company within a year exceeding 30% of its latest audited total assets for the year;
- (XV) to consider share incentive plans;
- (XVI) to deliberate and approve changes in the use of raised funds;
- (XVII) other matters to be resolved by the general meeting as stipulated by laws, administrative regulations, departmental rules and the Articles of Association;
- (XVIII) other matters required by the listing rules of stock exchanges on which the Company’s shares are listed.

“Within a year” refers to “within one financial year”.

The provision of any external guarantee by the Company must be considered and approved by the Board of Directors. The guarantee offered by the Company to a shareholder or de facto controller of the Company must be approved by the general meeting.

When the general meeting is considering a proposal to provide guarantee for a shareholder or de facto controller, such shareholder or shareholder(s) controlled by such de facto controller must abstain from voting on the proposal, and the proposal shall be subject to the approval of other attending shareholders by more than half of the voting rights held.

Without prior approval of the general meeting, the Company must not enter into any contract with anyone other than a Director, Supervisor, general manager and other senior management members to assign the management of all or a significant part of the Company’s business to such person.

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There are two types of general meetings: annual general meetings and extraordinary general meetings. General meetings are convened by the Board of Directors. Annual general meetings shall be held once every year within six months after the end of the previous fiscal year.

Extraordinary general meetings shall be held when required. The Board shall hold an extraordinary general meeting within two months after the date on which any of the following circumstances occurs:

- (I) the number of Directors is lower than the number required by the Company Law or lower than two-thirds of the number specified in the Articles of Association;
- (II) the outstanding loss of the Company amounts to one-third of the total paid-in share capital;
- (III) shareholders who individually or jointly hold more than 10% of the Company’s shares request to do so in writing;
- (IV) the Board of Directors deems it necessary or the Supervisory Committee proposes to do so;
- (V) two or more independent non-executive Directors propose to do so;
- (VI) any other circumstances as stipulated by laws, administrative regulations, departmental rules and the listing rules of stock exchanges on which the Company’s shares are listed.

Notice of the General Meeting

To convene a general meeting, the convener shall inform each shareholder of the matters to be considered at the meeting 21 days or 20 net working days (whichever is longer) prior to an annual general meeting and inform each shareholder 15 days or 10 net working days (whichever is longer) prior to an extraordinary general meeting. The issue date of the notice shall be the date on which the Company or the share registry commissioned by the Company serves the relevant notice to the post office for mailing.

Unless otherwise stipulated in the Articles of Association, the notice of a general meeting shall be delivered to shareholders (whether they are entitled to vote at the general meeting) by courier or prepaid mail to the recipient’s address as specified in the register of members. For holders of Domestic Shares, the notice of a general meeting may also be given by way of announcement.

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The “announcements” as mentioned in the Articles of Association shall be published in one or more newspapers designated by the securities regulatory authority of the State Council 15 days or 10 net working days (whichever is longer) (for extraordinary general meetings) or 21 days or 20 net working days (whichever is longer) (for annual general meetings) prior to the meeting. Once announced, all holders of Domestic Shares shall be deemed to have received the notice of the relevant general meeting.

Announcements made to holders of overseas listed foreign shares shall be published on the website designated by the Hong Kong Stock Exchange and the Company’s website. Once announced, all holders of overseas listed shares shall be deemed to have received the notice of the relevant general meeting.

The notice of a general meeting shall meet the following criteria:

- (I) it shall be made in writing;
- (II) it shall specify the time, venue and date of the meeting;
- (III) it shall set out the matters to be discussed at the meeting;
- (IV) it shall provide shareholders with information and explanation necessary for them to make informed decisions on the matters to be discussed. This principle includes (but not limited to) where a proposal is made by the Company for merger, repurchase of shares, restructure of share capital, or reorganization of the Company in any other way, the specific terms of the proposed transaction shall be provided in detail together with the contract, if any, and the cause and effect of the proposal shall be properly explained;
- (V) it shall disclose the nature and degree of the material interest that any Director, Supervisor, general manager and other senior management member has in the matters to be discussed. If the impact of the matters to be discussed on such Director, Supervisor, general manager and other senior management member as a shareholder is different from that on other holders of the same class of shares, the difference shall be explained;
- (VI) it shall set out the full text of any special resolution to be proposed at the meeting;
- (VII) it shall contain a noticeable written statement stating that a shareholder eligible for attending and voting is entitled to appoint one or more proxies to attend and vote on his/her behalf and that such proxy need not be a shareholder of the Company;
- (VIII) it shall specify the delivery time and place of the proxy form for voting at the meeting.

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The Holding of General Meetings

Any shareholder entitled to attend and vote at a general meeting shall have the right to appoint one or several persons (who may not be shareholders) to act as his/her proxy to attend and vote on his/her behalf.

The proxy so appointed by the shareholder may, pursuant to the instructions of the shareholder, exercise the following rights:

- (I) the right which the shareholder has to speak at the general meeting;
- (II) the right to demand voting by poll alone or jointly with others;
- (III) the right to exercise voting rights on a show of hands or on a poll, provided that where more than one proxy is appointed, the proxies may only exercise such voting rights on a poll.

Shareholders shall appoint their proxies by written instruments, which shall be signed by the appointer or their agents appointed by written instruments; where the appointer is a legal person, the instrument shall be under the seal of the legal person or signed by its directors or duly authorized agents.

The instrument for appointing a voting proxy shall be deposited at the domicile of the Company or at such other place as specified in the notice of the convened meeting within 24 hours prior to the relevant meeting at which the proxy is authorized to vote. If the instrument for appointing a voting proxy is signed by another person authorized by the appointer, the power of attorney or other document authorizing the signature shall be notarized. The notarized power of attorney or other authorizing document shall be deposited together with the instrument for appointing a voting proxy at the domicile of the Company or at such other place as specified in the notice of the meeting.

If the appointer is a legal person, its legal representative or the person authorized by a resolution of its Board of Directors or other decision-making body shall attend the general meeting of the Company as the representative of such legal person.

Any instrument issued by the Board of Directors of the Company to the shareholders for the appointment of proxies shall be in such format as to enable the shareholder to instruct the proxy to vote in favor of or against the motions according to his/her free will, and instructions shall be given in respect of each individual matter to be voted on at the meeting. The instrument of proxy shall contain a statement that in the absence of instructions by the shareholder the proxy may vote as he thinks fit.

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Where the appointer has deceased, incapacitated to act, withdrawn the appointment or the power of attorney, or where the relevant shares have been transferred prior to the voting, a vote given by the proxy in accordance with the instrument shall remain valid provided that no written notice of such event has been received by the Company prior to the commencement of the relevant meeting.

Resolutions of General Meeting

A general meeting shall be convened and chaired by the chairman of the Board of Directors. Resolutions of the general meeting are divided into ordinary resolutions and special resolutions.

Ordinary resolutions put forward in the general meeting shall be adopted by not less than half of shareholders (including their proxies) with voting rights attending the meeting. Special resolutions put forward in the general meeting shall be adopted by not less than two-thirds of the shareholders (including their proxies) with voting rights attending the meeting. Where the votes against and for are in a tie, the chairman of the meeting shall be entitled to cast one more vote.

The following issues shall be approved by way of ordinary resolutions at the general meeting:

- (I) the working reports of the Board of Directors and the Supervisory Committee;
- (II) the profit distribution proposals and plans for making up losses formulated by the Board of Directors;
- (III) the appointment and dismissal of the members of the Board of Directors and the Supervisory Committee (except for employee representative supervisors), and their remuneration and payment method;
- (IV) the annual financial budgets, final accounts, balance sheet, income statement and other financial statements of the Company;
- (V) the annual reports of the Company;
- (VI) the Company's appointment, dismissal or non-reappointment of an accountant firm;
- (VII) other matters unless otherwise required to be adopted as special resolutions in accordance with the applicable laws, administrative regulations or the Articles of Association.

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The following issues shall be approved by way of special resolutions at the general meeting:

- (I) increase or reduction of share capital and issuance of shares of any class, warrants and other similar securities of the Company;
- (II) issuance of corporate bonds by the Company;
- (III) division, merger, dissolution and liquidation (including voluntary winding up) of the Company;
- (IV) changes to the form of the Company;
- (V) acquisition or disposal of major assets or provision of guarantee with the amount exceeding 30% of the Company’s latest audited total assets within a year;
- (VI) amendments to the Articles of Association;
- (VII) reviewing and considering share incentive plans and their implementation;
- (VIII) repurchase of the Company’s shares;
- (IX) other matters required by the laws, administrative regulations and the Articles of Association and considered by a general meeting, by way of ordinary resolution, to have a substantial impact on the Company and require approval by special resolution;
- (X) other matters required by the Listing Rules of the Hong Kong Stock Exchange to be adopted by special resolution.

Special Procedures for Voting by Class Shareholders

Shareholders holding different classes of shares shall be class shareholders.

Class shareholders shall enjoy rights and assume obligations pursuant to the provisions of laws, administrative regulations and the Articles of Association.

Variation or abrogation of the rights of class shareholders proposed by the Company shall be approved by a special resolution of a general meeting and by the shareholders of the affected class at separate meetings convened in accordance with the relevant Articles.

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The following circumstances shall be deemed to be a variation or abrogation of the rights of a certain class shareholder:

- (I) increasing or decreasing the number of shares of such class, or an increase or decrease in the number of shares of a class having voting or distribution rights or other privileges equal or superior to the shares of such class;
- (II) converting all or part of the shares of such class into shares of another class, or converting all or part of the shares of other classes into shares of such class, or granting such conversion rights;
- (III) removing or reducing rights to accrued dividends or cumulative dividends attached to shares of such class;
- (IV) reducing or removing the right to receive priority dividends or, in the event of the liquidation of the Company, to receive priority distribution of property attached to shares of such class;
- (V) increasing, removing or reducing the right of conversion, options, voting rights, the right to transfer, priority in placement and the right to acquire securities of the Company attached to shares of such class;
- (VI) removing or reducing the right to receive sums payable by the Company in particular currencies attached to shares of such class;
- (VII) creating a new class of shares having the same or more rights of or to voting, distribution or other privileges when compared with the shares of such class;
- (VIII) imposing restrictions on the transfer or ownership of the shares of such class or increasing such restrictions;
- (IX) issuing subscription rights or share conversion rights in respect of shares of such class or another classes;
- (X) increasing the rights and privileges of shares of other classes;
- (XI) proposing to restructure the Company where the proposed restructuring scheme shall result in different classes of shareholders having to assume disproportionate liabilities in such restructuring; and
- (XII) varying or repealing the terms provided in this chapter.

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Shareholders of the affected class, whether or not having the right to vote at general meetings, shall nevertheless have the right to vote at class meetings in respect of matters concerning circumstances (II) to (VIII), (XI) and (XII) mentioned above, but interested shareholders shall not be entitled to vote at class meetings.

A resolution of a class meeting shall only be adopted by the affirmative votes of two-thirds or more of voting rights held by shareholders present and entitled to vote at the class meeting.

Written notices of a class meeting convened by the Company shall be issued 21 days or 20 net working days (whichever is longer) prior to the date of the class meeting to all shareholders of such class whose names appear on the register of shareholders, specifying the matters to be considered and the date and venue of the meeting.

Shareholders who intend to attend the meeting shall deliver to the Company written replies of their intention to attend 10 net working days or 15 days (whichever is longer) prior to the date of the meeting. When calculating the time limit, the date of meeting shall not be included.

If the number of shares carrying voting rights at such meeting held by shareholders who intend to attend such meeting reaches one-half or more of the total number of shares of a class carrying voting rights at such meeting, the Company may convene such class meeting; if this cannot be attained, the Company shall further notify the shareholders by way of announcement within five days thereof specifying the matters to be considered and the date and venue of the meeting. After such announcement is given, the Company may then convene the class meeting.

Where there are any special regulations under the listing rules of the place where the Company's shares are listed, such regulations shall prevail.

If a class meeting is convened by serving of notice, such notice shall be delivered to the shareholders who are entitled to vote thereat only.

The procedures pursuant to which a class meeting is held shall, to the extent possible, be identical to the procedures according to which a general meeting is held. Provisions of the Articles in relation to procedures for the holding of a general meeting shall be applicable to class meetings.

In addition to holders of other class shares, holders of Domestic Shares and overseas listed foreign shares are deemed to be shareholders of different classes.

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The special procedures for voting by class shareholders shall not apply in the following circumstances:

- (I) where the Company issues, upon approval by special resolution in the general meeting, Domestic Shares and overseas listed foreign shares once every 12 months, either separately or concurrently, and the respective numbers of Domestic Shares and overseas listed foreign shares proposed to be issued do not exceed 20% of the issued and outstanding shares of the respective class;
- (II) where the Company’s plan to issue Domestic Shares and overseas-listed foreign shares at the time of incorporation is carried out within 15 months from the date of approval by the securities regulatory authorities of the State Council;
- (III) upon the approval of the securities regulatory authorities of the State Council and the agreement of the Hong Kong Stock Exchange, the domestic shareholders of the Company transfer all or part of their shares to overseas investors, and such shares are approved by overseas stock exchange to be listed and traded on overseas stock exchange, or the domestic shareholders of the Company are approved to convert all or part of their domestic shares of the Company to overseas listed shares.

Directors and Board of Directors

Directors

The Company shall set a period before convening a meeting to nominate candidate(s) for directorship. During such period, shareholders may send a written notice to the Company regarding the nomination of a candidate for directorship, and such candidate may send a written notice to the Company on his/her willingness to be elected. The aforesaid period shall be at least seven days, which shall commence no earlier than the second day after the issue of such notice of meeting and end no later than seven days prior to the date of such meeting.

Directors shall be elected and replaced at general meetings and serve a term of 3 years. A Director may serve consecutive terms if re-elected upon the expiration of his/her term;

The term of office of a Director shall commence from the date of him/her assuming office until expiry of the term of the prevailing session of the Board. If re-election is not made forthwith or the member of Directors falls below the minimum statutory requirement due to a director’s resignation, the former directors shall still perform their duties as Directors in accordance with the requirements of laws, administrative regulations, departmental rules and the Articles of Association before the appointment of the re-elected Directors.

If there are no other requirement under the laws, the shareholders shall have the right to remove any Director (including executive Director or independent non-executive Director) before the expiration of his/her term of office by ordinary resolution at the general meeting without prejudice to any claim for damages by such Director pursuant to any contract.

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The Directors are not required to hold share(s) of the Company.

Board of Directors

The Company shall have a Board of Directors consisting of 9 Directors, 3 of whom are independent non-executive Directors. The number of independent non-executive Directors, at any time, shall be at least 3 and represent more than one third of members of the Board.

The Board shall be accountable to the general meetings, and shall exercise the following functions and powers:

- (I) to convene the general meetings, make a proposal or propose a resolution at the general meeting for approval and report its work to the general meetings;
- (II) to implement resolutions of the general meeting;
- (III) to decide on the business plans and investment plans of the Company;
- (IV) to formulate the plans for annual financial budgets and final accounts of the Company;
- (V) to formulate the plans for profit distribution and making up losses of the Company;
- (VI) to formulate proposals for the increase or reduction of registered capital and the issue of share certificates, corporate bonds or other securities and the listing project of the Company;
- (VII) to formulate plans for major assets acquisition and disposal, repurchase of the share certificates of the Company or the merger, division, dissolution or change of the nature of incorporation of the Company;
- (VIII) to decide on the establishment of the internal management organization of the Company;
- (IX) to appoint or remove the general manager of the Company and secretary to the Board; to appoint or remove other senior management members, such as vice general manager and financial controller of the Company pursuant to the nominations of the general manager;
- (X) to decide on the remuneration of abovementioned senior management members;
- (XI) to formulate the basic management system of the Company;
- (XII) to prepare plans for amending the Articles of Association;

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- (XIII) to propose to the general meeting to appoint or replace an accounting firm;
- (XIV) to listen to the work reports of the general manager and other senior management members of the Company and review their work;
- (XV) to decide on matters such as external investment, external guarantee of the Company within the authority granted by the general meeting;
- (XVI) to decide on matters such as investment, acquisition or sale of assets, financing, connected transactions as specified in the Listing Rules of the Hong Kong Stock Exchange;
- (XVII) to decide on other important matters of the Company, other than those which shall be resolved at general meetings pursuant to the Company Law and the Articles of Association;
- (XVIII) to exercise other functions and powers conferred by the laws and regulations, the Listing Rules of the Hong Kong Stock Exchange, the Articles of Association or general meetings.

The Board may resolve on the matters specified in the preceding paragraph by approval of more than half of the Directors save for the matters specified in (VI), (VII) and (XII), in which approval of more than two thirds of the Directors is required.

A Board meeting shall be attended by more than half of the Directors. Every Director shall have the right to one vote. Save as otherwise specified in laws, administrative regulations or the Articles of Association, resolutions made by the Board shall be passed by more than half of all Directors. When the number of votes against and in favor are equal, the chairman of the Board of Directors shall be entitled to an additional vote.

Secretary to the Board

The Company shall have one secretary to the Board, and shall be nominated by the Chairman of the Board and appointed or removed by the Board. The Secretary to the Board shall be a senior management member of the Company.

A Director or senior management member of the Company may serve concurrently as secretary to the Board of the Company. The accountants of the accounting firm appointed by the Company and managers of Controlling Shareholders shall not serve concurrently as secretary to the Board of the Company.

In the event that a Director serves concurrently as secretary to the Board of the Company, where any act requires to be executed by the Director and the secretary to the Board of the Company separately, the said Director serving concurrently as secretary to the Board of the Company shall not execute the said act in both capacities.

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General Manager

The Company shall have one general manager who shall be appointed or dismissed by the Board.

The general manager shall be accountable to the Board and exercise the following functions and powers:

- (I) to manage the production, operation and management of the Company and report to the Board;
- (II) to organize the implementation of the resolutions of the Board and the annual business plans and investment plans of the Company;
- (III) to formulate the Company’s annual financial budgets and final accounts, and make recommendations to the Board on the same;
- (IV) to formulate the fundamental management system and internal management setup of the Company;
- (V) to formulate the specific rules of the Company;
- (VI) to propose the appointment or dismissal of deputy general managers, financial controllers and other senior management members according to the Articles of Association and the Company’s relevant internal control system;
- (VII) to decide to appoint or dismiss managers and general employees other than those appointed or dismissed by the Board according to the Articles of Association and the Company’s relevant internal control system;
- (VIII) to propose to convene an extraordinary Board meeting;
- (IX) to decide on the Company’s other matters within the scope authorized by the Board;
- (X) to decide on such projects as investment, acquisition or disposal and financing which do not need to be decided by the Board or the general meeting;
- (XI) to exercise other functions and powers as conferred by the Articles of Association and the Board.

The general manager shall be present at Board meetings.

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The Supervisory Committee

The Company shall have a Supervisory Committee. The Supervisory Committee shall comprise 3 Supervisors, one of whom shall be the chairman of the Supervisory Committee.

The Supervisory Committee shall be accountable to the general meeting and exercise the following functions and powers:

- (I) to supervise any acts of the Directors, the general manager and other senior management members in their performance of duties that violate the laws, administrative regulations and the Articles of Association, and to propose dismissal of any Directors and senior management members who violate the laws, administrative regulations, the Articles of Association or the resolutions of the general meetings;
- (II) to require the Directors and senior management members to make corrections if their conduct has damaged the interests of the Company;
- (III) to review the financial operations of the Company;
- (IV) to examine financial information such as financial reports, business reports and profit distribution plans as proposed by the Board to the general meeting, and if there are any queries, to engage certified public accountants or practicing auditors in the name of the Company to assist its review;
- (V) to propose the convening of extraordinary general meetings and, in case that the Board does not perform the obligations to convene and preside over the general meetings in accordance with the Company Law, to convene and preside over the general meetings;
- (VI) to submit proposals to the general meeting;
- (VII) to review the Company's periodical reports prepared by the Board and to express its comments in writing;
- (VIII) to propose to convene an extraordinary Board meeting;
- (IX) to initiate legal proceedings against the Directors and senior management members in accordance with Article 151 of the Company Law;
- (X) to exercise other functions and powers stipulated by laws, administrative regulations and the Articles of Association.

Supervisors shall be present at the Board meetings.

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Resolutions of the meeting of the Supervisory Committee shall be approved by more than two thirds of the members of the Supervisory Committee.

Directors, Supervisors and Senior Management Members

Qualifications of Directors, Supervisors and Senior Management Members

In the conditions as set out below, the following persons shall not serve as Directors, Supervisors, general manager or other senior management members of the Company:

- (I) persons without civil capacity or with limited civil capacity;
- (II) persons who have committed corruption, bribery, embezzlement, misappropriation of property or disruption of the order of socialist market economy and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence, or who have been deprived of their political rights due to the commission of a criminal offense, where less than five years have elapsed since the date of restoring their political rights;
- (III) persons who were former directors, factory managers or managers of a company or enterprise which was declared bankrupt and was liquidated and who were personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of completion of the bankruptcy and liquidation of the company or enterprise;
- (IV) persons who were legal representatives of a company or enterprise which had its business license revoked and had been ordered to shut down due to violation of the laws and who were personally liable, where less than three years have elapsed since the date of the revocation;
- (V) persons who have a substantial amount of debts due and outstanding;
- (VI) persons who were investigated by judicial offices and the lawsuit is not settled yet;
- (VII) persons who cannot serve as corporate leaders according to laws and administrative regulations;
- (VIII) non-natural person;
- (IX) persons who have been convicted by the competent authority for violation of securities regulations and acting fraudulently or dishonestly, where less than five years have elapsed since the date of conviction;
- (X) circumstances as required by the relevant laws and regulations of a place where the Company's shares are listed.

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The validity of the conduct of Directors, general manager or other senior management members who act in good faith on behalf of the Company with respect to third parties shall not be affected by any irregularity in their appointment, election or qualification.

Remuneration and Compensation for Loss of Office

The Company shall enter into contract in writing with regards to matters of remuneration of the Director, Supervisor and senior management members and obtain prior approval at the general meeting. The foregoing emoluments shall include:

- (I) emoluments in respect of his/her service as the Director, Supervisor or senior management members of the Company;
- (II) emoluments in respect of his/her service as the Director, Supervisor or senior management members of a subsidiary of the Company;
- (III) emoluments in connection with the provision of other service for the management of the Company and its subsidiary;
- (IV) funds received by such Directors or Supervisors as compensation for their loss of office or for their retirement.

The Director or Supervisor may not sue the Company for such benefits due to him/her on the grounds of the foregoing matters, except for under such contract as mentioned above.

The contract regarding emoluments entered into by and between the Company and its Directors and Supervisors may provide that in the event of a takeover of the Company, the Company's Directors and Supervisors shall, subject to the prior approval of the general meeting, have the right to receive compensation or other payment for loss of their office or for their retirement.

For the purposes of the Articles of Association, the term "a takeover of the Company" shall refer to any of the following occasions:

- (I) anyone makes a tender offer to all the shareholders;
- (II) anyone making a tender offer aims at that the offeror becomes the Controlling Shareholder which has the same definition as that provided in the Articles of Association.

If the relevant Director or Supervisor fails to comply with the requirements, any fund received by him/her shall belong to those persons that have sold their shares as a result of their acceptance of foregoing offer, and the expenses incurred from the distribution of such fund on a pro rata basis shall be borne by the relevant Director and Supervisor and may not be paid out of such fund.

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Providing Loan for Directors, Supervisors and Senior Management Members

The Company may not directly or indirectly provide a loan or loan security for the Directors, Supervisors, general manager or other senior management members of the Company and of its Controlling shareholders, or related persons of the foregoing persons.

The provisions of the preceding paragraph shall not apply to the following circumstances:

- (I) the Company provides a loan to its subsidiary or the Company provides a loan security for its subsidiary;
- (II) the Company provides a loan, loan security or other funds to the Director, Supervisor, general manager and other senior management member of the Company pursuant to an appointment contract approved by the general meeting, so as to enable such Director, Supervisor, general manager and senior management member of the Company to pay the expenses incurred for the purposes of the Company or for performing his/her duties of the Company; and
- (III) In the event that the normal business scope of the Company expands to provision of loans and loan security, the Company can provide loans and loan security to a relevant Director, Supervisor, general manager and other senior management of the Company or to a related person thereof, and provided that the conditions for the provision of loans and loan security shall be normal business conditions.

Financial and Accounting System

The Company shall establish its financial and accounting system in accordance with the laws, administrative regulations and the provisions stipulated by the relevant PRC authorities.

At the end of each fiscal year, the Company shall prepare a financial report which shall be audited and verified according to law.

The financial statements of the Company shall, in addition to being prepared in accordance with the PRC accounting standards and regulations, be prepared in accordance with the international accounting standards or the accounting standards of the place outside the PRC where the shares of the Company are listed. If there are any material differences between the financial statements prepared in accordance with the two accounting standards, such differences shall be stated in the notes to the financial statements.

In distributing its after-tax profits of the relevant fiscal year, the lower of the after-tax profits as shown in the aforesaid two financial statements shall be adopted.

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Interim results or financial information published or disclosed by the Company shall be prepared in accordance with the PRC accounting standards and regulations as well as international accounting standards or the accounting standards of the place outside the PRC where the shares of the Company are listed.

The Company’s financial reports shall be made available for shareholders’ inspection at the Company 20 days before the date of the annual general meeting. Every shareholder of the Company shall have the right to receive a copy of such financial reports mentioned in this chapter.

The term “financial reports” referred to in the Articles of Association shall include the directors’ report, together with the balance sheet (including the necessary documents required under the laws of the PRC or other laws and administrative regulations) and profit and loss statement (income statement) or income and expenditure account (cash flow statement), or (without violation of the PRC law) summary financial reports approved by the Hong Kong Stock Exchange.

The Company shall deliver such financial report (including every document required by laws and regulations to be annexed to the balance sheet) to every holder of its overseas listed foreign shares in person or by pre-paid mail at the addresses of such shareholders as recorded in the share register no less than 21 days before the date of the annual general meeting. The Company can proceed by way of announcements, including announcement via the Company’s website, on condition that such announcements are in compliance with the laws, administrative regulations, departmental rules and the relevant requirements of the securities regulatory authority of the place where the shares of the Company are listed.

The Company shall publish two financial reports each fiscal year, i.e. an interim financial report to be published within 60 days after the end of the first six months of the fiscal year and an annual financial report to be published within 120 days after the end of the fiscal year.

Dissolution and Liquidation of the Company

In any of the following circumstances, the Company shall be dissolved:

- (I) a special resolution on dissolution is passed at a general meeting;
- (II) dissolution is necessary due to a merger or division of the Company;
- (III) its business license is revoked, or it is ordered to close up or to be revoked according to laws;
- (IV) the Company is ordered to close down according to laws due to its violation of laws or administrative regulations;

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(V) where the Company's operations and management encounter serious difficulty, and its continuation will cause substantial loss to the interests of the shareholders and no solution can be found through any other channels, shareholders holding 10% or more of the total voting rights of the Company may make requisition to the people's court to dissolve the Company;

(VI) the Company is declared insolvent according to laws because it is unable to pay its debts as they fall due;

(VII) the term of operation specified in the Articles of Association expires or any other circumstance for dissolution specified in the Articles of Association arises.

In the circumstance set out in (VII) above, the Company may continue to subsist by amending the Articles of Association.

Where the Company is dissolved pursuant to the abovementioned items (I), (III), (V) and (VII), a liquidation committee shall be set up, within 15 days from the date upon which the cause of dissolution arises, to start the liquidation process. The membership of the liquidation committee shall be determined by an ordinary resolution of the general meeting. In case no such committee is established to proceed with liquidation in time, the creditors may make application to the people's court for appointing relevant persons to form the liquidation committee for liquidation.

Where the Company is dissolved pursuant to the aforementioned item (IV), a liquidation committee comprised of shareholders, relevant authorities and relevant professionals shall be formed by relevant competent authorities, for carrying out the liquidation.

If the Company is dissolved pursuant to the aforementioned item (VI), a liquidation committee comprising shareholders, relevant authorities and relevant professionals shall be established by the people's court in accordance with relevant laws to carry out the liquidation.

Where the Board decides to liquidate the Company due to causes other than where the Company has declared that it is insolvent, the Board shall include a statement in its notice convening the general meeting to consider the proposal to the effect that, after making full inquiry into the affairs of the Company, the Board is of the opinion that the Company will be able to pay its debts in full within 12 months from the commencement of the liquidation.

Upon the passing of the resolution by the general meeting for the liquidation of the Company, all functions and powers of the Board shall cease.

The liquidation committee shall act in accordance with the instructions of the general meeting to make a report at least once every year to the general meeting on the committee's receipts and payments, the business of the Company and the progress of the liquidation, and to present a final report to the general meeting on completion of the liquidation.

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The liquidation committee shall send a notice to creditors within 10 days of its establishment, and make public announcements at least three times in newspapers within 60 days of its establishment.

If the liquidation committee, having examined the Company’s assets and having prepared a balance sheet and an inventory of assets, discovers that the Company’s assets are insufficient to pay its debts in full, it shall immediately apply to the people’s court for a declaration of insolvency.

After the people’s court has declared the Company insolvent, the liquidation committee shall turn over any matters regarding the liquidation to the people’s court.

Following the completion of liquidation, the liquidation committee shall prepare a report on liquidation and a statement of the receipts and payments and financial books during the period of liquidation, which shall be examined and verified by the PRC certified public accountants and submitted to the general meeting or the people’s court for confirmation. The liquidation committee shall also within 30 days after such confirmation, submit the preceding documents to the company registration authority and apply for cancellation of registration of the Company, and publish an announcement relating to the termination of the Company.

Amendments to the Articles of Association

The Company may amend the Articles of Association pursuant to laws, administrative regulations and the Articles of Association.

Amendment to the Articles of Association which involves the contents of the Mandatory Provisions shall become effective upon approval by the company approval authority (if applicable) authorized by the State Council. Where amendment involves the registered particulars of the Company, application shall be made for alteration of registration in accordance with the laws.

Settlement of Disputes

The Company shall act according to the following principles to settle disputes:

- (I) In the event of any dispute or claim between a holder of overseas listed foreign shares and the Company, between a holder of overseas listed foreign shares and a Director, Supervisor, the general manager or other senior management members of the Company, and between a holder of overseas listed foreign shares and a holder of Domestic Shares arising from rights and obligations specified in the Articles of Association, Company Law and other relevant laws and administrative regulations and relating to the affairs of the Company, the parties concerned shall submit the said dispute or claim for arbitration.

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The aforesaid dispute or claim submitted for arbitration shall be the entire dispute or claim; all the persons who complain for the same reason or who are required to participate in the settlement of the dispute or claim shall accept the arbitration award if they are the Company or its shareholders, Directors, Supervisors, the general manager, or other senior management members.

Disputes in respect of who is the shareholder and those in relation to the register of members need not be resolved by arbitration.

- (II) The claimant may select China International Economic and Trade Arbitration Commission for arbitration following the arbitration rules thereof or select Hong Kong International Arbitration Centre for arbitration following the securities arbitration rules thereof. Once a claimant refers a dispute or claim to arbitration, the other party must carry out arbitration in the arbitration tunnel selected by the claimant.

If the claimant selects for arbitration to be carried out at the Hong Kong International Arbitration Centre, any party may apply for a hearing to take place in Shenzhen in accordance with the securities arbitration rules of the Hong Kong International Arbitration Centre.

- (III) If any disputes or claims of rights arising out of (I) above are settled by way of arbitration, the laws of the People’s Republic of China (excluding Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan region) shall apply, save as otherwise provided in laws and administrative regulations.
- (IV) The arbitration award made by the arbitral authority shall be final and binding on both parties.
- (V) For any agreements reached between a Director, a senior management member and the Company containing provisions on settlement of disputes, the Company shall represent itself and each shareholder.
- (VI) Any arbitration submitted shall be deemed as authorizing the arbitration tribunal to conduct public hearing and announce the arbitration award.

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Incorporation

Our Company was established as a limited liability company in the PRC on September 17, 2014 and was converted into a joint stock limited company on July 9, 2021 under the laws of the PRC. As of the Latest Practicable Date, the registered share capital of our Company is RMB437,705,989.

Our Company has established a place of business in Hong Kong at 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong and has been registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on August 26, 2021. Ms. Yeung Siu Wai Kitty, one of our joint company secretaries, and Ms. Cheung Yuet Fan have been appointed as authorized representatives in Hong Kong and our agents for the acceptance of service of process in Hong Kong whose correspondence address is the same as our place of business in Hong Kong.

As we are established in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of the relevant provisions of our Articles of Association is set out in “Summary of Articles of Association” in Appendix V to this Document. A summary of certain relevant aspects of the laws and regulations of the PRC is set out in “Summary of Principal Legal and Regulatory Provisions” in Appendix IV to this Document.

Changes in Share Capital

On September 17, 2014, the predecessor of our Company, Shenzhen Qianhai Fourth Paradigm Data Technology Co., Ltd. (深圳市前海第四範式數據技術有限公司) was established with a registered capital of RMB5 million.

The following sets out the changes in the share capital of our Company during the two years immediately preceding the date of this Document:

On October 12, 2020, the Board resolved to allow Paradigm Investment, Cisco China, Nongwan Investment, CNCB (Hong Kong) Investment Limited, Shenzhen Songhe, Shenzhen Lingyu and Shenzhen Linghui to subscribe for increased registered capital of our Company. The registered capital of our Company increased from RMB18,039,055 to RMB19,782,655 on October 20, 2020.

On January 31, 2021, the Board resolved to allow Boyu Jingtai, Qiushi Xingde, CDBC Manufacturing Fund, Jiangsu Jiequan, CITIC Securities Investment, Guangkong Zhongying, NIFA No.1 and Ningbo Huiyuan to subscribe for increased registered capital of our Company. The registered capital of our Company increased from RMB19,782,655 to RMB21,590,970 on February 9, 2021.

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On April 28, 2021, the Board resolved to allow Xinhe No.1, Purui Tianjin, Sequoia Hanchen and Paradigm Investment to subscribe for increased capital of our Company. The registered capital of our Company increased from RMB21,590,970 to RMB24,922,549 on April 29, 2021.

On May 8, 2021, the Board resolved to allow China-UAE Investment to subscribe for increased capital of our Company. The registered capital of our Company increased from RMB24,922,549 to RMB25,462,076 on May 8, 2021.

Pursuant to the first extraordinary general meeting of the Company dated July 9, 2021, the Shareholders resolved to allow Zhongyi Equity Fund, Lucent Shanghai, MIC Capital, Hangzhou Fantong, CPE Investment (Hong Kong) 2018 Limited, JIC Tech-Inv, Zhuhai Jinyiming, Beijing New Power, GS Asia II, Fangyuan Chuangying, Haitong International Investment, Jiaying Chenyue, Shenzhen Ruixin New Vision Strategic Emerging Industry Private Equity Investment Fund Partnership (Limited Partnership), Lianxiang Yangtze River, Stonebridge 2020, Growing Fame, CITIC Construction Investment, Hainan BOCOM, Dongkong Jinlong and Hainan Yuanfengshang to subscribe for increased registered capital of our Company. The registered capital of our Company increased from RMB400,000,000 to RMB437,705,989 on July 9, 2021.

For more details, see “History, Development and Corporate Structure – [REDACTED] Investments.” Save as aforesaid, as of the Latest Practicable Date, there had been no alterations of our share capital within the two years preceding the date of publication of this Document.

Corporate Reorganization

Our Company has not gone through any corporate reorganization. For details of the history and development of our Company, see the section headed “History, Development and Corporate Structure” in this Document.

Resolutions of our Shareholders

Pursuant to a general meeting held on July 16, 2021, among other things, our Shareholders resolved that:

- (a) the issuance by our Company of the H Shares of nominal value of RMB1.00 each and such H Shares being [REDACTED] on the Hong Kong Stock Exchange;
- (b) the number of H Shares to be issued shall not be more than [REDACTED]% of the total issued share capital of our Company as enlarged by the [REDACTED], and the grant to the [REDACTED] (or their representatives) of the [REDACTED] of not more than [REDACTED]% of the number of H Shares issued pursuant to the [REDACTED];

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- (c) subject to the completion of the [REDACTED], the conditional adoption of the Articles of Association which shall become effective on the [REDACTED], and authorization to the Board to amend the Articles of Association in accordance with the requirements of the relevant laws and regulations and the Listing Rules; and
- (d) authorization of the Board to handle all matters relating to, among other things, the [REDACTED], the issue and [REDACTED] of the H Shares.

Pursuant to a general meeting held on March 25, 2022, our Shareholders resolved that subject to the CSRC’s approval, upon completion of the [REDACTED], 74,730,779 Unlisted Foreign Shares held by Sequoia Capital China Venture, YSC Investment I, China-UAE Investment, Sinovation Fund III, Major Awesome, Value Global, MIC Capital, CPE Investment (Hong Kong) 2018 Limited, GS Asia II, Haitong International Investment, Stonebridge 2020, Growing Fame and LF Beta will be converted into H Shares on a one-for-one basis.

Changes in Share Capital of our Subsidiaries

A summary of the corporate information and the particulars of our subsidiaries in Note 1 to the Accountant’s Report set out in Appendix I to this Document.

The following alterations in the share or registered capital of our subsidiaries have taken place within two years immediately preceding the date of this Document.

4Paradigm Beijing

On March 4, 2021, the registered capital of 4Paradigm Beijing increased from RMB10.0 million to RMB50.0 million.

Guangzhou Jianxin

On June 8, 2021, the registered capital of Guangzhou Jianxin increased from RMB22.9 million to RMB30.5 million.

Ideal Technology

On June 23, 2021, the registered capital of Ideal Technology increased from RMB50.0 million to RMB55.6 million.

Beijing Yuntian

On May 27, 2022, the registered capital of Beijing Yuntian increased from RMB5.0 million to RMB50.0 million.

EpicHust

On June 14, 2022, the registered capital of EpicHust increased from RMB38.0 million to RMB43.7 million.

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FURTHER INFORMATION ABOUT OUR BUSINESS

Summary of Material Contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this Document that are or may be material:

1. the shareholders agreement dated May 31, 2021 entered into among Beijing Fourth Paradigm Technology Co., Ltd.* (北京第四範式智能技術有限公司) (our Company), Fourth Paradigm (Beijing) Data & Technology Co., Ltd.* (第四範式(北京)技術有限公司), Beijing Fourth Paradigm Science & Technology Co., Ltd.* (北京第四範式科技有限公司), Shanghai Shishuo Intelligent Technology Co., Ltd.* (上海式說智能科技有限公司), Paradigm (Tianjin) Management Consulting Partnership (Limited Partnership) (範式(天津)管理諮詢合夥企業(有限合夥)), Dai Wenyuan (戴文淵), Tianjin Paradigm Yinyuan Management Consulting Partnership (Limited Partnership) (天津範式隱元管理諮詢合夥企業(有限合夥)), SCC Venture V-Mars (HK) Limited, Sinovation Fund III, L.P., Beijing Innovation Works VC Center (Limited Partnership)* (北京創新工場創業投資中心(有限合夥)), Beijing Sequoia Mingde Equity Investment Center (Limited Partnership) (北京紅杉銘德股權投資中心(有限合夥)), YSC Investment I (HK) Limited, Value Global Limited, Zhuhai Guangkong Zhongying Industry Investment Fund Partnership (Limited Partnership) (珠海光控眾盈產業投資基金合夥企業(有限合夥)), Ningbo Meishan Bonded Zone Sequoia Zhisheng Equity Investment Partnership (Limited Partnership) (寧波梅山保稅港區紅杉智盛股權投資合夥企業(有限合夥)), LF Beta Limited, Tibet Lingfeng Xinfu Venture Investment Partnership (Limited Partnership) (西藏領風鑫服創業投資合夥企業(有限合夥)), Hubei Boheng Equity Investment Partnership (Limited Partnership) (湖北渤恒股權投資合夥企業(有限合夥)), Chance Talent Management Limited, Henan Guoxin Qidi Equity Investment Fund (Limited Partnership) (河南國新啟迪股權投資基金(有限合夥)), Ningbo Huiyuan Venture Capital Partnership (Limited Partnership) (寧波匯原創業投資合夥企業(有限合夥)), Zhuhai Hongmai Enterprise Management Partnership (Limited Partnership) (珠海宏邁企業管理合夥企業(有限合夥)), Major Awesome Limited, Zhuhai Xuren Equity Investment Fund Partnership (Limited Partnership) (珠海旭仁股權投資基金合夥企業(有限合夥)), Beijing Ruihui Haina Technology Industry Fund (Limited Partnership) (北京睿匯海納科技產業基金(有限合夥)), Bocom International Holdings Company Limited, CITIC Securities Investment Limited (中信証券投資有限公司), Jinshi Jinrui Equity Investment (Hangzhou) Partnership (Limited Partnership) (金石金納股權投資(杭州)合夥企業(有限合夥)), Jinshi Haofeng Equity Investment (Hangzhou) Partnership (Limited Partnership) (金石灝豐股權投資(杭州)合夥企業(有限合夥)), Jinshi Zhiyu Equity Investment Enterprise (Limited Partnership)* (金石智娛股權投資(杭州)合夥企業(有限合夥)), Nongwan (Changsha) Equity Investment Enterprise (Limited Partnership) (農灣(長沙)股權投資企業(有限合夥)), Zhuhai Huiyuan Investment Partnership (Limited Partnership)* (珠海暉元投資合夥企業(有限合夥)), Beijing NIFA No. 1 Artificial Intelligence Technology Industry Fund Management Center (Limited Partnership) (北京中互金一號人工智能科技產業基金管理中心(有限合夥)), Guangzhou Yuexiu Nuocheng No. 8 Industrial Investment Partnership (Limited Partnership)* (廣州越秀諾成八號實業投資合夥企業(有限合夥)), Guangzhou Yuexiu Emerging Industry Phase II Investment Fund Partnership (Limited Partnership)* (廣州越秀新興產業二期投資基金合夥企業(有限合夥)), Cisco China Company Limited (思科(中國)有限公司), CNCB (Hong Kong) Investment Limited (信銀(香港)投資有限公司), Shanghai Saixin Business Consulting Management

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Center (Limited Partnership)* (上海賽新商務諮詢管理中心(有限合夥)), Beijing Lenovo Smart Internet Innovation Fund Partnership (Limited Partnership)* (北京聯想智能互聯網創新基金合夥企業(有限合夥)), Shenzhen Songhe Growth Investment Partnership (Limited Partnership) (深圳市松禾成長股權投資合夥企業(有限合夥)), Shenzhen Lingyu Cornerstone Equity Investment Partnership (Limited Partnership) (深圳市領譽基石股權投資合夥企業(有限合夥)), Shenzhen Linghui Cornerstone Equity Investment Partnership (Limited Partnership) (深圳市領匯基石股權投資基金合夥企業(有限合夥)), Xinhe No.1 (Tianjin) Technology Center (Limited Partnership) (信和一號(天津)科技中心(有限合夥)), Qiushi Xingde (Tianjin) Investment Center (Limited Partnership) (秋實興德(天津)投資中心(有限合夥)), Boyu Jingtai (Shanghai) Equity Investment Partnership (Limited Partnership)* (博裕景泰(上海)股權投資合夥企業(有限合夥)), Pu Rui Enterprise Management (Tianjin) Partnership (Limited Partnership)* (樸瑞企業管理(天津)合夥企業(有限合夥)), China-UAE Investment Cooperation (HK 1) Company Limited, Shenzhen Sequoia Hanchen Equity Investment Partnership (Limited Partnership) (深圳市紅杉瀚辰股權投資合夥企業(有限合夥)), CDBC Manufacturing Transformation and Upgrading Fund (Limited Partnership) (國開製造業轉型升級基金(有限合夥)), China Life (Jiangsu) Jiequan Health Industry Investment Fund (Limited Partnership) (江蘇國壽惠泉股權投資中心(有限合夥)), Hangzhou Fantong Equity Investment Partnership (Limited Partnership) (杭州範同股權投資合夥企業(有限合夥)), Goldman Sachs Asia Strategic II Pte. Ltd., Stonebridge 2020 (Singapore) Pte. Ltd., Lucent (Shanghai) Investment Center (Limited Partnership) (磐信(上海)投資中心(有限合夥)), CPE Investment (Hong Kong) 2018 Limited, MIC Capital Management 23 RSC Ltd, Zhuhai Jinyiming Equity Investment Fund Partnership (Limited Partnership) (珠海金鎰銘股權投資基金合夥企業(有限合夥)), Shenzhen Runxin New Vision Strategy Emerging Industry Private Equity Investment Fund Partnership (Limited Partnership)* (深圳潤信新觀象戰略新興產業私募股權投資基金合夥企業(有限合夥)), CITIC Construction Investment Co., Ltd. (中信建投投資有限公司), Ningbo Meishan Bonded Port Area Fangyuan Chuangying Equity Investment Partnership (Limited Partnership) (寧波梅山保稅港區方源創盈股權投資合夥企業(有限合夥)), Haitong International Investment Holdings Limited, Beijing New Power Quality Enterprise Development Fund (Limited Partnership)* (北京新動力優質企業發展基金(有限合夥)), JIC Technology Investment Ltd. (建投華科投資股份有限公司), Jiaxing Jianxin Chenyue Equity Investment Partnership (Limited Partnership) (嘉興建信宸玥股權投資合夥企業(有限合夥)), Growing Fame Holdings Limited, Hubei Province Lianxiang Yangtze River Technology Industry Fund Partnership (Limited Partnership) (湖北省聯想長江科技產業基金合夥企業(有限合夥)), Hainan BOCOM International Science and Technology Innovation Shengxing Equity Investment Partnership (Limited Partnership) (海南交銀國際科創盛興股權投資合夥企業(有限合夥)), Foshan City South Sea Dongkong Jinlong Investment Partnership (Limited Partnership) (佛山市南海東控錦龍投資合夥企業(有限合夥)), Guangxi Tencent Venture Capital Co., Ltd.* (廣西騰訊創業投資有限公司), Zhuhai Zhongyu Investment Enterprise (Limited Partnership)* (珠海眾譽投資企業(有限合夥)), Gongqingcheng Yuanchun Investment Management Partnership (Limited Partnership)* (共青城元淳投資管理合夥企業(有限合夥)), Qingdao Chuangxin Venture Capital Enterprise (Limited Partnership)* (青島創鑫創業投資企業(有限合夥)) and Zhongyi Equity Fund (Hebei Xiongan) Partnership (Limited Partnership) (中移股權基金(河北雄安)合夥企業(有限合夥)), pursuant to which shareholders' rights were agreed among the aforementioned parties; and

2 [REDACTED].

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Intellectual Property Rights

Trademarks

As of the Latest Practicable Date, the key trademarks in relation to the business of our Group as a whole were:

Trademark	Registered Owner
	4Paradigm Beijing
范式	4Paradigm Beijing
第四范式先知	4Paradigm Beijing
4Paradigm Sage	4Paradigm Beijing
4Paradigm SageOne	4Paradigm Beijing

In addition to the trademarks above, our Group had over 510 trademark registrations in the PRC, European Union, Singapore and Hong Kong.

Patents

As of the Latest Practicable Date, we had over 230 patents registered with the National Intellectual Property Administration of the PRC and over 320 pending patent applications in the PRC.

Copyrights

As of the Latest Practicable Date, we had over 420 copyrights registered with the National Copyright Administration of the PRC.

Domain Name

As of the Latest Practicable Date, the following was the key domain name registration of our Group:

4paradigm.com

Save as the above, as of the Latest Practicable Date, there were no other intellectual property rights which were material to our business.

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FURTHER INFORMATION ABOUT OUR DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

Save as disclosed below, immediately following the completion of the [REDACTED] (assuming that the [REDACTED] is not exercised), so far as our Directors are aware, none of our Directors, Supervisors or chief executive has any interests or short positions in our Shares, underlying shares and debentures of our Company or any associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

(a) *Interests in our Company*

Name	Position	Nature of Interest	Number and class of Shares held ⁽¹⁾	Approximate percentage of shareholding in the relevant class of Shares after the [REDACTED] ⁽¹⁾	Approximate percentage of shareholding in the total share capital of our Company after the [REDACTED] ⁽¹⁾
Dr. Dai ⁽²⁾	Chairman of the Board, Executive Director and Chief Executive Officer	Beneficial owner	106,164,523 Unlisted Shares	[REDACTED]%	[REDACTED]%
		Interest in controlled corporations	74,068,383 Unlisted Shares	[REDACTED]%	[REDACTED]%

Notes:

- (1) The calculation is based on the total number of 362,975,210 Unlisted Shares and [REDACTED] H Shares in issue immediately after Completion of the [REDACTED] since 74,730,779 Unlisted Foreign Shares will be converted into H Shares and [REDACTED] H Shares will be issued pursuant to the [REDACTED], and assuming that the [REDACTED] is not exercised.
- (2) Immediately after completion of the [REDACTED] and assuming the [REDACTED] is not exercised, Dr. Dai beneficially owns 106,164,523 Domestic Shares of our Company. In addition to his direct shareholding, Dr. Dai is also deemed to be interested in 74,068,383 Domestic Shares of our Company through the intermediaries he controlled under the SFO. Paradigm Investment and Paradigm Yinyuan own 63,962,734 Domestic Shares and 10,105,649 Domestic Shares of our Company, respectively. Dr. Dai, through Beijing New Wisdom, being the sole general partner of Paradigm Investment and Paradigm Yinyuan. Beijing New Wisdom is a limited liability company established in the PRC and owned as to 99% by Dr. Dai and 1% by Ms. Wu, respectively.

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2. Substantial Shareholders

For the information on the persons who will, immediately following the completion of the [REDACTED], have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, see the section headed “Substantial Shareholders” in this Document.

So far as set out above, our Directors are not aware of any persons (other than our Directors, Supervisors or chief executive) who will, immediately following the completion of the [REDACTED], directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

3. Service Contracts

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, we have entered into a contract with each of our Directors and Supervisors in respect of, among other things, compliance with the relevant laws and regulations, the Articles of Association and applicable provisions on arbitration.

Save as disclosed above, we have not entered, and do not propose to enter, into any service contracts with any of our Directors or Supervisors in their respective capacities as Directors or Supervisors (other than contracts expiring or determinable by the employer within one year without any payment of compensation (other than statutory compensation)).

4. Director’s and Supervisors’ Remuneration

Save as disclosed in “Directors, Supervisors and Senior Management” and “Appendix I – Accountant’s Report – II. Notes to The Financial Information – 10. Employee Benefit Expenses” for the three financial years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, none of our Directors or Supervisors received other remunerations of benefits in kind from us.

5. Employee Incentive Scheme

The following is a summary of the principal terms of the Employee Incentive Scheme approved and adopted by our Board on April 25, 2021 (the “**Adoption Date**”). The terms of the Employee Incentive Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the Employee Incentive Scheme does not involve the grant of options by our Company after the [REDACTED]. Given the underlying Shares under the Employee Incentive Scheme had already been issued, there will not be any dilution effect to the issued Shares upon the vesting of the Shares under the Employee Incentive Scheme. No further award under the Employee Incentive Scheme will be granted after [REDACTED].

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As of the Latest Practicable Date, the Company had established an Employee Incentive Platform, namely Paradigm Investment, which held 63,962,734 Domestic Shares. For the details of the Employee Incentive Platform, please refer to “History, Development and Corporate Structure – Employee Incentive Scheme” in this Document.

Objectives

The purpose of the Employee Incentive Scheme is to enable the Company to provide incentives to eligible participants (“**Eligible Participants**”, as defined in the paragraph headed “**Eligibility**” below) and reward them for their contribution or potential contribution to the Group.

Grant of awards

The Scheme entitles Eligible Participants to be granted awards (“**Awards**”) in the form of economic interests in the Employee Incentive Platform, namely the Paradigm Investment as the limited partners in the Employee Incentive Platform through another limited partnership with other Eligible Participants. Upon becoming the limited partners of the Employee Incentive Platform, the Eligible Participants indirectly receive economic interest in the corresponding number of underlying Shares held by the Employee Incentive Platform.

Eligibility

Pursuant to the scheme documents (the “**Scheme Documents**”), Eligible Participants of the Scheme include the following classes of persons:

- i. Directors or senior management of our Group;
- ii. Core technicians, middle-level management and key employees who have made outstanding or special contributions to the Group; and
- iii. Any other suitable person identified by the award working team (“**Award Working Team**”), set up for the daily management of the Scheme.

The Scheme Documents further provide that the following employees may not be selected as participants to the Scheme:

- Employees who hold shares, positions, or received remuneration in any company that has a business competition (or potential business competition) with the Group; and
- Employees who have received warnings, administrative penalties or other disciplinary actions due to material violation of applicable laws and regulations or rules of any stock exchange for the preceding three years;

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Administration of the Scheme

Our Board retains full discretion over the following matters of the Scheme:

- the selection of participants in the Scheme; and
- the implementation, amendment and termination of the Scheme.

Restrictions on Transfer

Pursuant to the terms of the Scheme, except as otherwise agreed between the Employee Incentive Platform and the Eligible Participants, and except for written approval by the Employee Incentive Platform, during the subsistence of the Employee Incentive Platform, the selected participants may not dispose or transfer their respective interest in the Employee Incentive Platform.

Lock-up period

Prior to the [REDACTED] of the Company, except as agreed by the Award Working Team, a selected participant might not transfer, mortgage, pledge or gift his or her interest, or dispose in any way his or her limited partnership interest. In the event that the Company initiates [REDACTED] plan, except as otherwise agreed between the Employee Incentive Platform and the selected participants, the lock-up period prohibiting a selected participant from disposing his or her limited partnership interest will start on the day of holding the relevant limited partnership interest to (a) the date specified by the CSRC or stock exchanges in other countries or regions to restrict the transfer of Shares (if any) or (b) the termination date of any lock-up undertaking given by the Employee Incentive Platform in respect of transfer of its shares (whichever is the later). Selected participants' interest in the Employee Incentive Platform will also be automatically locked up from the day the Company entered into sponsorship and [REDACTED] agreements with securities companies in respect of the [REDACTED] of the Company until the date specified by the CSRC or stock exchanges in other countries or regions to restrict the transfer of shares (if any) or (b) the termination date of any lock-up undertaking given by the Employee Incentive Platform in respect of transfer of its shares (whichever is the later).

Company's right of disposal

Pursuant to the Scheme, the Employee Incentive Platform might exercise its right to transfer a selected participant's interest in the Employee Incentive Platform either to a designated person or have the Employee Incentive Platform buy back the interest from the selected participants, in the event of any misconduct which may bring adverse impact to the Employee Incentive Platform or the Group.

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Awards granted

The aggregate number of Shares underlying the awards granted to two Directors (Chen Yuqiang and Yu Zhonghao), three Supervisors (Chai Yifei, Zhou Wenjing and Shao Liling), four senior management members, and 347 other employees of our Group amounted to 18,427,925, 1,532,633, 25,001,318 and 24,651,264, respectively. Among which, 45,176,550 Shares underlying the awards were granted to 22 connected persons of the Company, including the aforementioned Directors and Supervisors, spouse of a Director, certain directors and supervisors of our subsidiaries namely Guangzhou Jianxin, Zhimei Xinchuang, Zhongyuan Putai, Beijing Yuntian, Paradigm Telian, Ideal Technology and Nanchang Jianxin Technology Co., Ltd.

Save as disclosed above, no awards under the Employee Incentive Scheme have been granted to other connected persons of our Group and there is no outstanding number of Shares underlying the unvested awards granted under the Employee Incentive Scheme. As at the Latest Practicable Date, all the Awards have been vested and all the selected participants holding vested Awards have become limited partners of partnerships, which hold limited partnership interest in the Employee Incentive Platform.

The table below sets forth the list of Directors, Supervisors and senior management members of our Group who are grantees of the awards under the Employee Incentive Scheme, and the number of the underlying Shares of their respective awards:

Name of Director, Supervisor or senior management member	Number of Shares underlying the Awards granted under the Employee Incentive Scheme
Chen Yuqiang	11,937,331
Yu Zhonghao	6,490,594
Chai Yifei	1,064,974
Zhou Wenjing	367,845
Shao Liling	99,814
Pei Misi	11,371,038
Hu Shiwei	11,937,331
Zheng Zhao	438,771
Tu Weiwei	1,254,178

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6. Disclaimers

Saved as disclosed in this Document:

- (a) none of our Directors, Supervisors or any of the parties listed in “Qualification of Experts” of this Appendix is:
 - (i) interested in our promotion, or in any assets which, within the two years immediately preceding the date of this Document, have been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to our Company;
 - (ii) materially interested in any contract or arrangement subsisting at the date of this Document which is significant in relation to our business;
- (b) save in connection with the [REDACTED] and the [REDACTED], none of the parties listed in “Qualification of Experts” of this Appendix:
 - (i) is interested legally or beneficially in any shares in any member of our Group;
or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of our Group;
- (c) none of our Directors or Supervisors or their close associates or any shareholders of our Company who to the knowledge of our Directors owns more than 5% of our issued share capital has any interest in our top five customers or suppliers; and
- (d) none of our Directors or Supervisors is a director or employee of a company that has an interest in the share capital of our Company which, once the H Shares are [REDACTED] on the Hong Kong Stock Exchange, would have to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO.

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OTHER INFORMATION

Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to be imposed on our Company or any of our subsidiaries.

Litigation

As of the Latest Practicable Date, no member of our Group was involved in any litigation, arbitration, administrative proceedings or claims of material importance, and, so far as we are aware, no litigation, arbitration, administrative proceedings or claims of material importance are pending or threatened against any member of our Group.

Joint Sponsors

The Joint Sponsors have made an application on our behalf to the Listing Committee for the [REDACTED] of, and [REDACTED], our H Shares. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

The Joint Sponsors satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. Each of the Joint Sponsors will receive a fee of US\$500,000 for acting as a sponsor for the [REDACTED].

Preliminary Expenses

Our Company did not incur any material preliminary expenses.

Qualification of Experts

The qualifications of the experts who have given opinions or advice in this Document are as follows:

Name	Qualification
Goldman Sachs (Asia) L.L.C.	A corporation licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities as defined under the SFO

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Name	Qualification
China International Capital Corporation Hong Kong Securities Limited	A corporation licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
PricewaterhouseCoopers	Certified Public Accountants under Professional Accountant Ordinance (Cap. 50) and Registered Public Interest Entity Auditor under Financial Reporting Council Ordinance (Cap. 588)
JunHe LLP	PRC legal advisor
China Insights Industry Consultancy Limited	Independent industry consultant

Consents of Experts

Each of the experts referred to in “Qualification of Experts” in this Appendix has given and has not withdrawn its respective written consents to the issue of this Document with the inclusion of certificates, letters, opinions or reports and the references to its names included herein in the form and context in which it is respectively included.

None of the experts named above has any of our shareholding interests or rights (whether legally enforceable or not) or any of our members to subscribe for or to nominate persons to subscribe for our securities or any of our member.

Compliance Advisor

We have appointed Guotai Junan Capital Limited as our Compliance Advisor upon the [REDACTED] in compliance with Rule 3A.19 of the Hong Kong Listing Rules.

Taxation of Holders of H Shares

The sale, purchase and transfer of H Shares are subject to Hong Kong stamp duty. The current rate charged on each of the seller and purchaser is HK\$1.30 for every HK\$1,000 (or part thereof) of the consideration or, if higher, the fair value of the H Shares being sold or transferred. For further information in relation to taxation, see “Taxation and Foreign Exchange – Taxation in Hong Kong” in Appendix III to this Document.

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No Material Adverse Change

Save as disclosed in the “Summary – No Material Adverse Change” and “Financial Information – No Material Adverse Change” to this Document, after all due diligence was performed as appropriate as the Directors believe, our Directors confirm that, as of the date of this Document, there has been no material adverse change in our financial position or prospects since June 30, 2022 and there has been no event that materially and adversely affected the data set out in the Accountant’s Report in Appendix I to this Document since June 30, 2022.

Binding Effect

This Document shall have the effect, if any application is made pursuant hereto, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

Miscellaneous

Save as disclosed in this Document:

- (a) within the two years preceding the date of this Document: (i) we have not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash; and (ii) no commissions, discounts, brokerage fee or other special terms have been granted in connection with the issue or sale of any shares of our Company;
- (b) no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;
- (c) we have not issued nor agreed to issue any founder shares, management shares or deferred shares;
- (d) there are no arrangements under which future dividends are waived or agreed to be waived;
- (e) there are no procedures for the exercise of any right of pre-emption or transferability of subscription rights;
- (f) there are no contracts for hire or hire purchase of plant to or by us for a period of over one year which are substantial in relation to our business;
- (g) there have been no interruptions in our business which may have or have had a significant effect on our financial position in the last 12 months;

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- (h) there are no restrictions affecting the remittance of profits or repatriation of capital by us into Hong Kong from outside Hong Kong;
- (i) no part of the equity or debt securities of our Company, if any, is currently [REDACTED] on or dealt in on any stock exchange or trading system, and no such [REDACTED] or permission to [REDACTED] on any stock exchange other than the Hong Kong Stock Exchange is currently being or agreed to be sought;
- (j) our Company has no outstanding convertible debt securities or debentures;
- (k) our Company is a joint stock limited company and is subject to the PRC Company Law; and
- (l) our Company has adopted a code of conduct regarding Directors’ and Supervisors’ securities transactions on terms as required under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules.

Restrictions on Share Repurchases

For details, see the sections headed “Summary of Principal Legal and Regulatory Provisions” in Appendix IV and “Summary of Articles of Association” in Appendix V to this Document.

Bilingual Document

The English language and Chinese language versions of this Document are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

Promoters

The promoters of our Company are all of the 50 then shareholders of our Company as at May 31, 2021 before our conversion into a joint stock limited liability company. Save as disclosed in this Document, within the two years immediately preceding the date of this Document, no cash, securities or benefit has been paid, allotted or given, or is proposed to be paid, allotted or given to the promoters named above in connection with the [REDACTED] or the related transactions described in this Document.

APPENDIX VII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE ON DISPLAY

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this Document delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of the [REDACTED];
- (b) the written consents referred to in “Statutory and General Information – Other Information – Consents of Experts” in Appendix VI to this Document; and
- (c) a copy of each of the material contracts referred to in “Statutory and General Information – Further Information about our Business – Summary of Material Contracts” in Appendix VI to this Document.

DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be available on display on the website of the Stock Exchange at www.hkexnews.hk and our website at www.4paradigm.com during a period of 14 days from the date of this Document:

- 1. the Articles of Association;
- 2. the Accountant’s Report from PricewaterhouseCoopers on the historical financial information of our Group for each of the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, the text of which is set forth in Appendix I to this Document;
- 3. the audited consolidated financial statements of our Company for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022;
- 4. the report from PricewaterhouseCoopers on the [REDACTED] of our Group as at June 30, 2022, the text of which is set forth in Appendix II to this Document;
- 5. the material contracts referred to in “Statutory and General Information – Further Information about our Business – Summary of Material Contracts” in Appendix VI to this Document;
- 6. the written consents referred to in “Statutory and General Information – Other Information – Consents of Experts” in Appendix VI to this Document;

**APPENDIX VII DOCUMENTS DELIVERED TO THE REGISTRAR OF
COMPANIES AND AVAILABLE ON DISPLAY**

7. the service contracts referred to in “Statutory and General Information – Further Information about our Directors, Supervisors, Senior Management and Substantial Shareholders – 3. Service Contracts” in Appendix VI to this Document;
8. the legal opinions issued by JunHe LLP, our PRC Legal Advisor, in respect of, among other things, the general matters and property interests of our Group under PRC law;
9. the industry report issued by CIC; and
10. a copy of the following PRC laws, together with unofficial English translations:
 - (i) the PRC Company Law;
 - (ii) the PRC Securities Law;
 - (iii) the Mandatory Provisions; and
 - (iv) the Special Regulations.