
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 20-F

(Mark One)

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2022

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission file number: 001-39354

Quhuo Limited

(Exact name of registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered, pursuant to Section 12(b) of the Act

Title of each class	Trading Symbol	Name of each exchange on which registered
American depositary shares, each representing ten Class A ordinary shares, par value US\$0.0001 per share	QH	The Nasdaq Global Market
Class A ordinary shares, par value US\$0.0001 per share*		

* Not for trading, but only in connection with the listing on the Nasdaq Global Market of American depositary shares

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None
(Title of Class)

Indicate the number of issued and outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Class A ordinary shares, par value US\$0.0001 each 55,379,583 shares outstanding
Class B ordinary shares, par value US\$0.0001 each 6,296,630 shares outstanding

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Of 1934. Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Emerging growth company	<input checked="" type="checkbox"/>

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards † provided pursuant to Section 13(a) of the Exchange Act. ☐

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP <input checked="" type="checkbox"/>	International Financial Reporting Standards as issued by the International accounting Standards Board <input type="checkbox"/>	Other <input type="checkbox"/>
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If "Other" has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☐ No ☐

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INTRODUCTION

Except where the context otherwise requires and for purposes of this annual report on Form 20-F only:

- “active workers” refers to the number of workers that established business outsourcing relationship with us, joined our insurance programs, and completed at least one transaction on our platform in a given period;
- “ADRs” refers to the American depositary receipts which, if issued, evidence the ADSs;
- “ADSs” refers to American depositary shares, each of which represents ten Class A ordinary shares;
- “B&B(s)” refers to a small lodging establishment that offers overnight accommodation and breakfast;
- “CAGR” refers to compound annual growth rate;
- “Class A ordinary shares” refers to our Class A ordinary shares of par value US\$0.0001 per share;
- “Class B ordinary shares” refers to our Class B ordinary shares of par value US\$0.0001 per share;
- “China” or “PRC” refers to the People’s Republic of China, excluding, for the purpose of this annual report only, Taiwan and the special administrative regions of Hong Kong and Macau;
- “delivery time” refers to the amount of time that it takes for food and non-food orders to be delivered door-to-door to the ordering end consumer through our on-demand delivery solutions; “average delivery time” is calculated by dividing the total amount of delivery time of all completed delivery orders by the number of total completed delivery orders in a given period;
- “HFCAA” refers to Holding Foreign Companies Accountable Act, as amended;
- “industry customer(s)” refers to business customer(s) to which we offer services, primarily including on-demand consumer service companies in the food and non-food delivery, ride-hailing, housekeeping and bike-sharing industries, as well as chain restaurants and other companies in the overall service industry, such as hotels and B&Bs;
- “KPI(s)” refers to key performance indicator(s);
- “on-time delivery rate” refers to the ratio of the number of delivery orders completed within the time as required by our industry customers divided by the number of total delivery orders completed in a given period; “average on-time delivery rate” is calculated by dividing the number of total orders that have been delivered on time by the number of total completed delivery orders in a given period;
- “ordinary shares” of “shares” refer to our ordinary shares comprising Class A ordinary shares, par value US\$0.0001 per share and/or Class B ordinary shares, par value US\$0.0001 per share;
- “registered workers” refers to the accumulative number of workers that have established business outsourcing relationship with us, joined our insurance programs, and completed at least one transaction on our platform since our inception;
- “RMB” or “Renminbi” refers to the legal currency of China;
- “US\$,” “U.S. dollars,” “\$” or “dollars” refers to the legal currency of the United States of America;
- “VIE” refers to Beijing Quhuo Technology Co., Ltd.; “affiliated entities” refers to, collectively, the VIE and its subsidiaries; and

- “we,” “us,” “our,” or “our company” refers to Quhuo Limited, its subsidiaries, and, in the context of describing our operations and consolidated financial information, its VIE and subsidiaries of its VIE.

Effective on August 12, 2022, we changed the ratio of the ADSs to Class A ordinary shares from the then ADS ratio of one ADS to one Class A ordinary share to a new ADS ratio of one ADS representing ten Class A ordinary shares. Unless otherwise indicated, ADSs and per ADS amount in this annual report have been retroactively adjusted to reflect the change in ratio for all periods presented.

Names of certain companies provided in this annual report are translated or transliterated from their original Chinese legal names.

Discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding.

This annual report on Form 20-F includes our audited consolidated financial statements for the 2020, 2021 and 2022 fiscal years.

This annual report on Form 20-F contains information from an industry report commissioned by us and prepared by Frost & Sullivan in 2020, an independent research firm, to provide information regarding our industry and our market position in China. We refer to this report as the F&S report.

This annual report contains translations of certain Renminbi amounts into U.S. dollars at specified rates. Unless otherwise stated, the translation of Renminbi into U.S. dollars has been made at RMB6.8972 to US\$1.00, the noon buying rate in effect on December 30, 2022 as set forth in the H.10 Statistical Release of the Federal Reserve Board. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes controls over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade.

The ADSs are listed on the Nasdaq Global Market under the symbol “QH.”

MARKET AND INDUSTRY DATA

Market data and certain industry forecasts used in this annual report were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and we make no representation as to the accuracy of such information.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

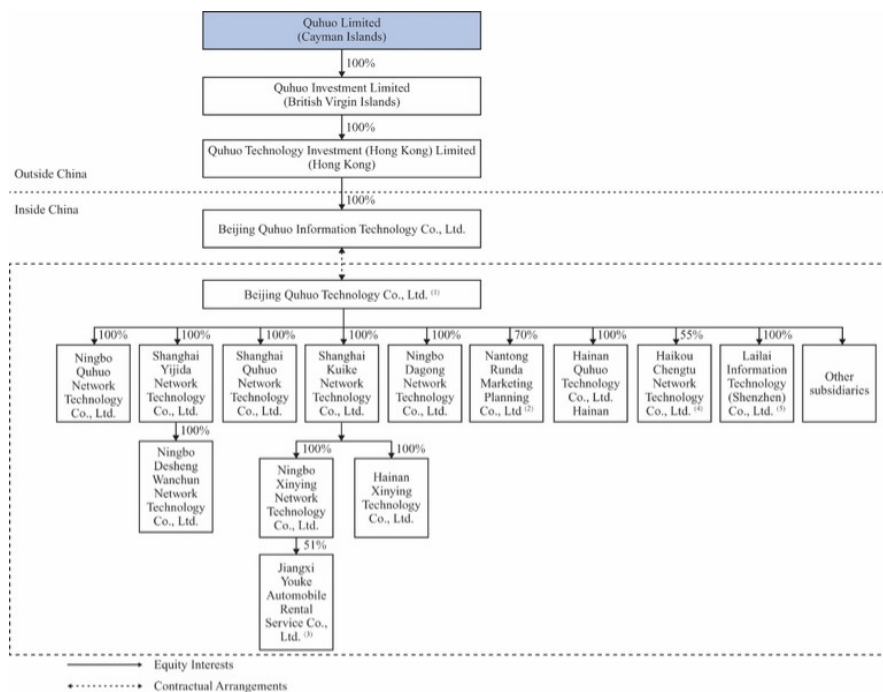
ITEM 3. KEY INFORMATION

Our Holding Company Structure and Contractual Arrangements with the VIE and Its Individual Shareholders

Quhuo Limited, our ultimate Cayman Islands holding company, does not have any substantive operations. Beijing Quhuo Information Technology Co., Ltd., or WFOE, is our wholly-owned PRC subsidiary and a foreign-invested enterprise under PRC laws. We conduct our business in China through Beijing Quhuo Technology Co., Ltd., or the VIE, and its subsidiaries, or collectively the affiliated entities, in China, and may in the future commence or acquire businesses that are subject to the restrictions with respect to value-added telecommunications services.

A series of contractual agreements, including equity interest pledge agreement, exclusive call option agreement, exclusive business cooperation agreement, power of attorney and financial support undertaking letters, have been entered into by and among our WFOE, the VIE and its shareholders. For more details of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure—Our Contractual Arrangements.”

The following diagram illustrates our simplified corporate structure, including our principal subsidiaries, the VIE and its subsidiaries, as of the date of this annual report:



- (1) The shareholders of Beijing Quhuo Technology Co., Ltd., or Beijing Quhuo, include Ms. Lili Sun, spouse of Mr. Leslie Yu, Mr. Shuyi Yang, Mr. Zhen Ba, Ningbo Maiken Investment Management LLP and Mr. Tongtong Li, holding 25.7264%, 24.9784%, 9.6547%, 38.8250% and 0.8154% of the equity interests of Beijing Quhuo, respectively.
- (2) The remaining 30% of the equity interests of Nantong Runda Marketing Planning Co., Ltd. is owned by two independent individuals.
- (3) The remaining 49% of the equity interests of Jiangxi Youke Automobile Rental Service Co., Ltd. is owned by an independent individual.
- (4) The remaining 45% of the equity interest of Haikou Chengtu Network Technology Co., Ltd. is owned by three independent third parties.

- (5) In November 2020, we acquired a 54.22% equity interest in Lilai Information Technology (Shenzhen) Co., Ltd., an on-demand workforce platform that specializes in housekeeping solutions for hotels and B&Bs. In January 2022, we acquired the remaining 45.78% equity interest in Lilai.

The contractual arrangements may not be as effective as direct ownership in providing us with control over the VIE and we may incur substantial costs to enforce the terms of the arrangements. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—Any failure by the VIE or its shareholders to perform their obligations under our contractual arrangements with them would have a material adverse effect on our business” and “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—The shareholders of the VIE may have actual or potential conflicts of interest with us, which may materially and adversely affect our business, financial condition and results of operations.”

The VIE structure is used to provide contractual exposure to foreign investment in China-based companies where the PRC law prohibits or restricts direct foreign investment in the operating companies. Neither the investors nor we ourselves have an equity ownership in, direct foreign investment in, or control of, through such ownership or investment, the VIE. Instead, we receive the economic benefits of the VIE’s business operation through a series of contractual agreements with the VIE. Because of these contractual arrangements, we are the primary beneficiary of the VIE for accounting purposes and able to consolidate the financial results of the VIE with ours only if we meet the conditions for consolidation under U.S. GAAP. However, our contractual arrangements with the VIE are not equivalent of an investment in the VIE. The VIE structure involves unique risks to investors in the ADSs. Investors in the ADSs are purchasing equity securities of our ultimate Cayman Islands holding company rather than purchasing equity securities of the VIE, and investors in the ADSs may never hold equity interests in the VIE.

Our corporate structure is subject to risks associated with our contractual arrangements with the VIE. These contractual arrangements have not been properly tested in a court of law, and the PRC regulatory authorities could disallow our corporate structure at any time. Because of our corporate structure, our Cayman Islands holding company, our WFOE, the VIE and its subsidiaries, and our investors face uncertainty with respect to the interpretation and application of the PRC laws and regulations, including but not limited to the limitation on foreign ownership of internet technology companies, the regulatory review of overseas listing of PRC companies through a special purpose vehicle, and the validity and enforcement of the VIE agreements. These risks may result in a material change in our operations, significant depreciation of the value of our securities, or a complete hindrance of our ability to offer or continue to offer our securities to investors and cause the value of such securities to significantly decline or be worthless. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China” and “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure” for details. If the PRC government finds that the agreements that establish the structure for operating our business do not comply with PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations, and our ability to treat the VIE as the consolidated affiliated entities under U.S. GAAP may be restricted. Our holding company, our PRC subsidiary, the VIE, and investors of our company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with the VIE and, consequently, our ability to develop e-commerce business through the VIE and the prospect of our company.

Our Operations in China and Permissions Required from the PRC Authorities for Our Operations

We are a company registered in the Cayman Islands, and WFOE, our PRC subsidiary, is a foreign-invested enterprise under PRC laws. We do not have any substantive business operations on our own, and we conduct our business in China through Beijing Quhuo, the VIE, and its subsidiaries in China, and may in the future commence or acquire businesses that are subject to the restrictions with respect to value-added telecommunications services as set out in the Negative List (2021 Version) promulgated by the Ministry of Commerce, or MOFCOM, and the National Development and Reform Commission, or the NDRC.

We and the VIE face various legal and operational risks and uncertainties related to being based in and having significant operations in China. The PRC government has significant authority to exert influence on the ability of a China-based company, such as us and the affiliated entities, to conduct its business, accept foreign investments or list on U.S. or other foreign exchanges. For example, we and the affiliated entities face risks associated with regulatory approvals of offshore offerings, oversight on cybersecurity and data privacy, as well as the historical lack of inspection on our auditors by the U.S. Public Company Accounting Oversight Board, or the PCAOB. Such risks could result in a material change in our operations and/or the value of the ADSs or could significantly limit or completely hinder our ability to offer ADSs and/or other securities to investors and cause the value of such securities to significantly decline or be worthless. The PRC government also has significant discretion over the conduct of the business of us and the affiliated entities and may intervene with or influence our operations or the development of the value-added telecommunications service industry as it deems appropriate to further regulatory, political and societal goals. Furthermore, the PRC government has recently indicated an intent to exert more oversight and control over overseas securities offerings and foreign investment in China-based companies like us. Any such action, once taken by the PRC government, could significantly limit or completely hinder our ability to offer securities to investors and cause the value of such securities to significantly decline or in extreme cases, become worthless. For further details, see “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure” and “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China.”

Our operations in China are governed by PRC laws and regulations. As of the date of this annual report, our subsidiaries in China and the VIE have obtained the requisite licenses and permits from the PRC government authorities that are material for the business operations of our holding company, our subsidiaries and the VIE in China, including, among others, the ICP license. However, due to the uncertainties of interpretation and implementation of relevant laws and regulations, and the enforcement practice by government authorities in the PRC, we cannot assure you that we and the VIE have obtained all the permits or licenses required for conducting our and the VIE’s business in China, or that we and the VIE will be able to renew existing licenses and permits in the future. We and the VIE may be required to obtain additional licenses, permits, filings or approvals for the functions and services of our respective platform in the future. For more detailed information, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—If we fail to obtain requisite approvals, licenses or permits applicable to our business or to comply with applicable laws and regulations, our business, financial condition, results of operations and prospects may be materially and adversely affected.”

As of the date of this annual report, we, our PRC subsidiary, and the VIE and its subsidiaries have not been involved in any investigations on cybersecurity review initiated by any PRC regulatory authority, nor has any of them received any inquiry, notice or sanction. As of the date of this annual report, we, our PRC subsidiary and the VIE are not required to obtain approval or permission from China Securities Regulatory Commission, or the CSRC, the Cyberspace Administration of China, or the CAC, or any other regulatory entity for the operations of our PRC subsidiary, the VIE and its subsidiaries, or for us to maintain our listing status on a U.S. stock exchange under any currently effective PRC laws, regulations, and regulatory rules. However, the PRC government has recently indicated an intent to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers. For more detailed information, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The approval of and the filing with the CSRC or other PRC government authorities may be required in connection with our future offshore offerings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing.”

Cash and Asset Flows through Our Organization

Quhuo Limited transfers cash to Quhuo Investment Limited, its wholly-owned subsidiary in British Virgin Islands, by making capital contributions or providing loans, and Quhuo Investment Limited transfers cash to Quhuo Technology Investment (Hong Kong) Limited, or Quhuo Technology, a wholly-owned subsidiary of Quhuo Investment Limited incorporated in Hong Kong, by making capital contributions or providing loans. Quhuo Technology transfers cash to WFOE, by making capital contributions or providing loans to these entities. Quhuo Limited and the WFOE are not able to make direct capital contribution to the VIE. However, they may transfer cash to the VIE by loans or by making payments to the VIE for inter-group transactions.

In 2020, 2021 and 2022, Quhuo Limited, through its subsidiaries, provided loans of RMB87.7 million, nil and nil to WFOE, respectively. In 2020, 2021 and 2022, WFOE transferred RMB87.7 million, nil and nil to the VIE, respectively.

The VIE may transfer cash to WFOE by paying service fees according to the exclusive business cooperation agreement. In 2020, 2021 and 2022, WFOE charged financial support fees under the exclusive business cooperation agreement of RMB16.6 million, RMB13.8 million and RMB13.9 million (US\$2.0 million), respectively, and the total amount of service fees that the VIE paid to WFOE were RMB14.1 million, RMB16.2 million and RMB19.3 million (US\$2.8 million), respectively. In 2021 and 2022, WFOE also charged and received management fee of RMB9.9 million and nil from the VIE for advancing certain operating expenses. In 2021 and 2022, the VIE provided loans of RMB3.4 million and RMB9.9 million (US\$1.4 million) to WFOE as working capital support.

In 2020, 2021 and 2022, no dividends or distributions were made to Quhuo Limited by our subsidiaries. Under PRC laws and regulations, our PRC subsidiary and the VIE are subject to certain restrictions with respect to paying dividends or otherwise transferring any of their net assets to us. Remittance of dividends by a wholly foreign-owned enterprise out of China is also subject to examination by the banks designated by the State Administration of Foreign Exchange, or SAFE. The amounts restricted include the paid-up capital and the statutory reserve funds of our PRC subsidiary and the VIE, totaling RMB382.7 million, RMB395.5 million and RMB191.0 million (US\$27.7 million) as of December 31, 2020, 2021 and 2022, respectively. Furthermore, cash transfers from our PRC subsidiary to entities outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency may temporarily delay the ability of our PRC subsidiary and the VIE to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. For risks relating to the fund flows of our operations in China, see “Item 3. Key Information—Risk Factors—Risks Related to Doing Business in China—We may rely on dividends paid by our PRC subsidiary to fund cash and financing requirements. Any limitation on the ability of our PRC subsidiary to pay dividends to us could have a material adverse effect on our ability to conduct our business and to pay dividends to holders of the ADSs and our ordinary shares.”

Quhuo Limited has not declared or paid any cash dividends, nor does it have any present plan to pay any cash dividends on its ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business. See “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Dividend Policy.” For the Cayman Islands, PRC and U.S. federal income tax considerations applicable to an investment in the ADSs or Class A ordinary shares, see “Item 10. Additional Information—E. Taxation.”

If we intend to distribute dividends through Quhuo Limited, our WFOE will transfer the dividends to Quhuo Technology in accordance with the laws and regulations of the PRC, and then Quhuo Technology will transfer the dividends to Quhuo Investment Limited, which then will transfer the dividends to the Parent, and the dividends will be distributed from the Parent to all shareholders respectively in proportion to the shares they hold, regardless of whether the shareholders are U.S. investors or investors in other countries or regions. To the extent cash or assets in the business is in mainland China or Hong Kong or in an entity domiciled in mainland China or Hong Kong, and may need to be used to fund operations outside of mainland China or Hong Kong, the funds and assets may not be available to fund operations or for other uses outside of mainland China or Hong Kong due to interventions in or the imposition of restrictions and limitations by the government on our ability to transfer cash and assets. We may also encounter difficulties in our ability to transfer cash between subsidiaries in China and other subsidiaries largely due to various PRC laws and regulations imposed on foreign exchange.

Financial Information Related to the VIE

The following table presents the selected condensed consolidated balance sheet information relating to Quhuo Limited, or the Parent, WFOE, the VIE and its subsidiaries as of December 31, 2021 and 2022.

	As of December 31, 2021				
	Parent	WFOE	VIE and its subsidiaries (RMB in thousands)	Eliminations	Consolidated
Cash	8,612	518	19,463	—	28,593
Inter-group balance due from	82,687	87,688	7,823	(178,198)	—
Other current assets	109,282	2,104	625,242	2,215	738,843
Total current assets	200,581	90,310	652,528	(175,983)	767,436
Investment in subsidiaries, the VIE and its subsidiaries	270,360	—	—	(270,360)	—
Other non-current assets	—	305	377,634	—	377,939
Total non-current assets	270,360	305	377,634	(270,360)	377,939
Total assets	470,941	90,615	1,030,162	(446,343)	1,145,375
Inter-group balance due to	—	93,009	87,688	(180,697)	—
Other liabilities	—	3,489	660,276	(1,825)	661,940
Total liabilities	—	96,498	747,964	(182,522)	661,940
Total shareholders' equity	470,941	(5,883)	282,198	(263,821)	483,435
Total liabilities and shareholders' equity	470,941	90,615	1,030,162	(446,343)	1,145,375

	As of December 31, 2022				
	Parent	WFOE	VIE and its subsidiaries (RMB in thousands)	Eliminations	Consolidated
Cash	7,157	708	87,579	—	95,444
Inter-group balance due from	88,264	58,489	18	(146,771)	—
Other current assets	61,855	22,646	560,516	(21,240)	623,777
Total current assets	157,276	81,843	648,113	(168,011)	719,221
Investment in subsidiaries, the VIE and its subsidiaries	345,026	—	—	(345,026)	—
Other non-current assets	—	227	336,169	—	336,396
Total non-current assets	345,026	227	336,169	(345,026)	336,396
Total assets	502,302	82,070	984,282	(513,037)	1,055,617
Inter-group balance due to	—	88,282	58,489	(146,771)	—
Other liabilities	1,140	823	500,912	55,165	558,040
Total liabilities	1,140	89,105	559,401	(91,606)	558,040
Total shareholders' equity	501,162	(7,035)	424,881	(421,431)	497,577
Total liabilities and shareholders' equity	502,302	82,070	984,282	(513,037)	1,055,617

The following table presents the selected condensed consolidated statements of comprehensive loss and cash flows relating to the Parent, WFOE, the VIE and its subsidiaries as of December 31, 2020, 2021 and 2022.

Selected condensed consolidated statements of comprehensive loss data

Year Ended December 31, 2020					
	Parent	WFOE	VIE and its subsidiaries (RMB in thousands)	Eliminations	Consolidated
Revenues	—	16,579	2,580,810	(16,579)	2,580,810
Cost of revenues	(2,175)	—	(2,386,124)	—	(2,388,299)
Operating and other expenses	(51,907)	(15,705)	(128,643)	(1,860)	(198,115)
(Loss)/gain from VIE and its subsidiaries	57,512	—	—	(57,512)	—
Net income/(loss)	3,430	874	66,043	(75,951)	(5,604)

Year Ended December 31, 2021					
	Parent	WFOE	VIE and its subsidiaries (RMB in thousands)	Eliminations	Consolidated
Revenues	—	13,766	4,025,279	(13,766)	4,025,279
Cost of revenues	—	(97)	(3,849,585)	—	(3,849,682)
Operating and other expenses	(54,353)	(16,241)	(296,233)	—	(366,827)
(Loss)/gain from VIE and its subsidiaries	(103,554)	—	—	103,554	—
Net (loss)/income	(157,907)	(2,572)	(120,539)	89,788	(191,230)

Year Ended December 31, 2022					
	Parent	WFOE	VIE and its subsidiaries (RMB in thousands)	Eliminations	Consolidated
Revenues	—	13,864	3,820,378	(13,864)	3,820,378
Cost of revenues	—	(63)	(3,567,627)	—	(3,567,690)
Operating and other expenses	(58,391)	(17,279)	(190,812)	(2,620)	(269,102)
(Loss)/gain from VIE and its subsidiaries	45,261	—	—	(45,261)	—
Net (loss)/income	(13,130)	(3,478)	61,939	(61,745)	(16,414)

Selected condensed consolidated cash flow information

	Year Ended December 31, 2020				
	Parent	WFOE	VIE and its subsidiaries (RMB in thousands)	Eliminations	Consolidated
Net cash (used in) provided by operating activities	(4,233)	2,009	30,389	(17,055)	11,110
Net cash (used in) provided by investing activities	(129,854)	(89,197)	(56,535)	88,503	(187,083)
Net cash (used in) provided by financing activities	143,972	87,688	(7,119)	(71,448)	153,093
Effect of exchange rate changes	(146)	6	(4)	—	(144)
Net increase (decrease) in cash and restricted cash	9,739	506	(33,269)	—	(23,024)

	Year Ended December 31, 2021				
	Parent	WFOE	VIE and its subsidiaries (RMB in thousands)	Eliminations	Consolidated
Net cash (used in) provided by operating activities	(1,015)	(2,179)	(27,699)	—	(30,893)
Net cash (used in) provided by investing activities	—	(1,190)	(112,604)	3,381	(110,413)
Net cash (used in) provided by financing activities	1	3,380	68,673	(3,381)	68,673
Effect of exchange rate changes	(214)	—	—	—	(214)
Net increase (decrease) in cash and restricted cash	(1,228)	11	(71,630)	—	(72,847)

	Year Ended December 31, 2022				
	Parent	WFOE	VIE and its subsidiaries (RMB in thousands)	Eliminations	Consolidated
Net cash (used in) provided by operating activities	(7,664)	(31,672)	114,059	—	74,723
Net cash (used in) provided by investing activities	5,582	2,663	39,767	29,199	77,211
Net cash (used in) provided by financing activities	—	29,199	(82,140)	(29,199)	(82,140)
Effect of exchange rate changes	627	—	(306)	—	321
Net increase (decrease) in cash and restricted cash	(1,455)	190	71,380	—	70,115

Holding Foreign Companies Accountable Act and PCAOB's Inspection over Financial Statements

The HFCAA was enacted on December 18, 2020. Pursuant to the HFCAA and related regulations, as amended from time to time, if we have filed an audit report issued by a registered public accounting firm that the PCAOB has determined that it is unable to inspect and investigate completely, the SEC will identify us as a “commission-identified issuer,” and the trading of our securities on any U.S. national securities exchanges, as well as any over-the-counter trading in the United States, will be prohibited if we are identified as a commission-identified issuer for two consecutive years. On October 6, 2022, the SEC conclusively named us as a “commission-identified issuer” following the filing of our annual report on Form 20-F for the year ended December 31, 2021.

On August 26, 2022, the CSRC, the Ministry of Finance of China, and the PCAOB signed a statement of protocol agreement, or the Protocol, which established a specific and accountable framework for the PCAOB to conduct inspections and investigations of PCAOB-governed accounting firms in mainland China and Hong Kong. Pursuant to the Protocol, the PCAOB has the sole discretion in selecting the subject of its inspections and investigations without input from the Chinese authorities, and procedures are in place to allow PCAOB inspectors and investigators to review complete audit working papers of accounting firms located in mainland China and Hong Kong. On December 15, 2022, the PCAOB announced that it was able to secure complete access to inspect and investigate PCAOB-registered public accounting firms headquartered in mainland China and Hong Kong in 2022, and the PCAOB Board vacated its previous determinations that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong. However, it remains uncertain whether the PCAOB will continue to be able to satisfactorily conduct inspections of PCAOB-registered public accounting firms headquartered in mainland China and Hong Kong, which depends on a number of factors beyond our and our auditor's control. The PCAOB continues to demand complete access in mainland China and Hong Kong moving forward and is making plans to conduct regular inspections in early 2023 and beyond, as well as to continue pursuing ongoing investigations and initiate new investigations as needed. The PCAOB has indicated that it will act immediately to consider the need to issue new determinations with the HFCAA if needed.

Our financial statements contained in the annual report on Form 20-F for the fiscal year ended December 31, 2022 have been audited by an independent registered public accounting firm, Marcum Asia CPAs LLP, or Marcum Asia, which is registered with the PCAOB and subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. Marcum Asia is headquartered in New York, New York, and, as of the date of this annual report, has not been determined by the PCAOB as being unable to be inspected or investigated completely.

Notwithstanding the foregoing, if, in the future, we have been identified by the SEC for two consecutive years as a “commission-identified issuer” whose registered public accounting firm is determined by the PCAOB that it is unable to inspect or investigate completely because of a position taken by one or more authorities in China, the SEC may prohibit our shares or the ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the United States. We also cannot assure you whether regulatory authorities would apply additional and more stringent criteria to us after considering the effectiveness of our auditor’s audit procedures and quality control procedures, adequacy of personnel and training, or sufficiency of resources, geographic reach or experience as it relates to the audit of our financial statements. If we fail to meet the new listing standards specified in the HFCAA, we could face possible delisting from the Nasdaq Stock Market, cessation of trading in over-the-counter market, deregistration from the SEC and/or other risks, which may materially and adversely affect the trading price of the ADSs or terminate the trading of the ADSs in the United States.

A. [Reserved]

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Summary of Risk Factors

Our business is subject to numerous risks and uncertainties, including risks that may prevent us from achieving our business objectives or may adversely affect our business, financial condition, results of operations, cash flows, and prospects. These risks are discussed more fully below and include, but are not limited to, risks related to:

Risks related to our business and industry

- our limited operating history and evolving business portfolio;
- our competitive position in the on-demand delivery market and our ability to further diversify our solution offerings;
- our relatively high customer concentration;
- our relationships with existing industry customers and our ability to attract new customers;
- our ability to attract, retain and manage workers on our platform;
- potential adverse legal, tax, and other consequences with respect to the classification of workers on our platform;
- our ability to comply with contracts with industry customers;
- our ability to achieve or sustain profitability and generate positive cash flow;
- our significant costs in connection with certain business lines;

- the industry development of the business development of our industry customers;
- our ability to obtain requisite approvals, licenses and permits;
- unlawful, improper or otherwise inappropriate activities by workers on our platform while delivering our solutions;
- potential liabilities, expenses of resolving claims and disputes and harm to our business due to the nature of our business;
- our ability to develop, maintain, and enhance our brand and reputation;
- increases in labor, energy and other costs in China;
- our ability to support and resolve intellectual property rights claims and other litigation matters; and
- our ability to comply with laws and contractual obligations related to data privacy and protection.

Risks related to doing business in China

- changes in China's economic, political or social conditions or government policies;
- uncertainties with respect to the PRC legal system;
- threat of the ADSs being delisted under the HFCAA for the lack of inspections by the PCAOB on our independent registered public accounting firm that issues the audit report included in this annual report;
- difficulty for overseas regulators to conduct investigation or collect evidence within China;
- misappropriation and misuse of our controlling non-tangible assets, including chops and seals; and
- PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion.

Risks related to our corporate structure

- uncertainties with respect to the contractual arrangements that establish our corporate structure for operating our business;
- failure by the VIE or its shareholders to perform their obligations under our contractual arrangements with them; and
- actual or potential conflicts of interest of shareholders of the VIE with us.

Risks related to our corporate governance

- our status as an exempted company incorporated in the Cayman Islands;
- our status as a foreign private issuer; and
- our dual-class voting structure and the concentration of ownership which provide Class B ordinary shareholder considerable influence over corporate matters, including the election of board of directors.

Risks related to the ADSs

- volatility of the trading price of the ADSs;

- our potential failure to satisfy the requirements for continued listing on Nasdaq Stock Market; and
- the sale or availability for sale of substantial amounts of the ADSs.

Risks Related to Our Business and Industry

Our limited operating history and evolving business portfolio make it difficult to evaluate our business and prospects.

We launched on-demand delivery solutions in February 2013 with a focus on prepared food, and recently expanded our service scope to the delivery of other items, such as grocery and fresh food. We also expanded our solutions to certain other industries in recent years, such as shared-bike maintenance, ride-hailing, freight service, and housekeeping and accommodation solutions. Our platform and business model in these new industries have not been fully proven given our limited operating history, which may subject us to a number of uncertainties and additional costs and expenses, and adversely impact our ability to project and plan for future growth. For example, as we lease vehicles to ride-hailing drivers on our platform, our ride-hailing solutions operate under a relatively capital-intensive model, which is different from our other solutions and may have an adverse impact on our cash flow. In addition, we may be required to comply with new laws and regulations applicable to these industries. We may also compete with one or more existing market leaders in such industries we expand into who may have gained competitive edge with their experience and existing brand recognition among customers.

Our limited operating history and evolving business portfolio make it difficult to draw an exact period-over-period comparison on our business, financial condition and results of operations as a whole. The historical revenue contribution from each of our business lines may not be indicative of their future performance.

As the industries in which our industry customers operate and our business further develop, we may modify our business model or continue to change our business portfolio. We may launch new solution offerings or discontinue any existing ones for strategic purposes. Any of such modifications or changes may have a material adverse effect on our business, financial condition, results of operations and prospects.

Assessing our business and prospects is difficult in light of the risks and challenges we may encounter. These risks and challenges include our ability to:

- accurately forecast our revenue and plan our operating expenses;
- attract and retain industry customers;
- attract, train and retain workers on our platform;
- provide diversified and distinguishable solutions and achieve market acceptance of our solutions;
- increase our market share in existing industries and expand into new industries;
- comply with existing and new laws and regulations applicable to our business;
- anticipate and adapt to evolving market conditions, including technological developments and changes in the competitive landscape;
- maintain reliable, secure, high-performance and scalable technology infrastructure;
- attract, retain and motivate talented employees; and
- improve our operational efficiency.

If we fail to address any or all of these risks and challenges, our business, financial condition, results of operations and prospects may be materially and adversely affected.

If we fail to remain our competitive position in the on-demand delivery market or further diversify our solution offerings, our business, financial condition, results of operations and prospects could be materially and adversely affected.

We have derived, and expect to continue to derive in the near future, a substantial majority of our revenue from our on-demand delivery solutions. Therefore, it is critical for us to remain competitive in the market. Our competitiveness may be affected by a number of factors beyond our control, including new services developed by our competitors, changes in technology, and the overall contraction in economy and the on-demand delivery market. While we continually seek to diversify our solution offerings by expanding into other industries, we cannot assure you that we will succeed in a timely manner or at all. If we fail to capture the growth in the demand for our on-demand delivery solutions, or if we fail to diversify our solution offerings, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Our high customer concentration exposes us to all of the risks faced by our major customers and may subject us to significant fluctuations or declines in revenues.

A limited number of industry customers have contributed a significant portion of our revenues in the past. We generated approximately 93% and 93% of our total revenues from three major industry customers in 2021 and 2022, respectively, including Meituan and Ele.me. Although we continually seek to diversify our customer base, we cannot assure you that the proportion of the revenue contribution from these industry customers to our total revenues will decrease in the near future, as the on-demand delivery market is highly concentrated. Other on-demand consumer service markets that we serve are also relatively concentrated with a limited number of market players.

Our dependence on a limited number of major industry customers will expose us to the risks of substantial losses if any of them reduces or even ceases business collaborations with us. Specifically, any one of the following events, among others, may cause material fluctuations or declines in our revenues and have a material and adverse effect on our business, financial condition, results of operations and prospects:

- an overall decline in the business of one or more of our major industry customers;
- the decision by one or more of our major industry customers to switch to our competitors;
- the reduction in the service fees of our solutions agreed by one or more of our major industry customers;
- the failure or inability of any of our major industry customers to make timely payment for our services;
- non-compliance with law on the part of any major industry customers or breach of contract by any major industry customers vis-à-vis their business partners; or
- unlawful, improper or otherwise inappropriate activities by any major industry customers that could harm their business, brand and reputation, or subject them to government investigations.

If we fail to maintain relationships with these major customers, and if we are unable to find replacement customers on commercially desirable terms or in a timely manner or at all, our business, financial condition, results of operations and prospects may be materially and adversely affected.

If we fail to maintain relationships with existing industry customers or attract new customers, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our relationship with industry customers is crucial to our success. If we fail to maintain the quality of our solutions on par with industry customers' operational needs or respond promptly and effectively to their evolving service requirements, we may lose our existing and potential industry customers and experience a loss of market share. We typically renew our agreements with industry customers on an annual or semi-annual basis. Although we generally managed to renew agreements with our major customers in the past, we cannot assure you that we can maintain relationships with existing industry customers on commercially desirable terms, or at all.

Industry customers may also terminate business relationships with us due to contractual disputes. For example, we had a dispute with a major industry customer as we extracted and downloaded operating data from its system by using certain technical

means not permitted by such customer. We also acquired customer relationships from other service providers of certain major industry customers without seeking their prior written consent. We rectified these issues, settled the disputes privately and maintained our business relationship with these industry customers. We have since enhanced our internal control measures and improved our communication with industry customers to avoid any inadvertent misunderstandings or disputes with our industry customers in the future. We cannot assure you, however, that these industry customers will not sue us for past disputes or that we will not be perceived to breach our contractual obligations, should similar incidents occur in the future. As our industry customers typically have strong bargaining power in imposing or interpreting the terms of our business relationships, we also cannot assure you that our current business practice would not expose us or our business partners to risks of contractual disputes. Should any new disputes arise in the future, we could be subject to penalties imposed by our industry customers, which may include monetary compensation, modification of delivery areas and up to termination of business relationships with us.

Furthermore, as some of our industry customers are competitors to each other in their respective markets, we may be forced to provide services exclusively to certain industry customers and terminate business relationships with the others for commercial consideration if market competition intensifies or if an industry customer so demands specifically by enforcing contractual covenants. We may also fail to develop new relationships with additional industry customers. In that case, our platform may become less appealing to workers as a result of a decline in earning opportunities, and our business, financial condition, results of operations and prospects will be materially and adversely affected.

If we fail to attract, retain and manage workers on our platform, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Our continued growth depends in part on our ability to cost-effectively attract, retain and manage workers on our platform. To do so, we have, among other things, offered them referral bonuses, on-the-job training, career advancement opportunities and other value-added work-life support and services. We compete with our competitors and other labor-intensive companies for a massive workforce. If we do not continue to provide workers with compelling earning opportunities and other support and services that are comparable or superior to those of our competitors, or if workers are dissatisfied with the opportunities, support and services we provide, we may be unable to continually attract new workers or retain the existing ones.

We have established business outsourcing relationships with workers on our platform through third-party labor service companies. We engage these service companies to attract workers and settle monthly payment of service fees to workers. Our business depends, to certain extent, on the stability of our contractual relationships with these labor service companies and their continued performance to our satisfaction. The source of workers on our platform could be materially and adversely affected by any disruption to their operations or any termination or suspension of our contractual arrangements with these labor service companies, and we may fail to find a replacement on commercially reasonable terms or in a timely manner or at all. If we fail to attract, retain and manage a sufficient number of workers on our platform or lose a substantial number of workers, we may no longer be able to meet the demands of our customers, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

Moreover, our ability to attract, retain and manage workers on our platform may be adversely affected by an overall decline of labor force due to macroeconomic, social, legal and political reasons that may affect labor migration, which are beyond our control. Any labor unrest or strikes directed against us could also directly or indirectly affect our ability to serve customers. Furthermore, labor unrest may affect general labor market conditions or result in changes to labor laws. Any of the foregoing could materially and adversely affect our business, financial condition, results of operations and prospects.

There could be adverse legal, tax, and other consequences if workers on our platform were to be classified as our employees or dispatched employees instead of independent contractors.

We have established business outsourcing relationships with workers on our platform, pursuant to which we pay service fees to workers engaged in our solutions as independent contractors through third-party labor service companies. We believe that our workforce model is consistent with the prevailing industry practice and recent policies of the State Council of the People's Republic of China, or the State Council, that promote on-demand consumer service businesses and the associated workforce model through flexible regulatory measures. Furthermore, we believe the workers on our platform are independent contractors because, among other things, they provide services for orders obtained through our industry customers and get paid primarily based on the number of completed orders. As such, we do not believe that workers on our platform should be deemed as our employees or dispatched employees under the relevant PRC laws and regulations. As of the date of this annual report, our workforce model has not been investigated or challenged by any government authorities. However, we have been previously involved in individual lawsuits brought by third parties to seek compensation from us for injuries caused by workers on our platform during their course of services. Some of

these lawsuits ruled in favor of the claimants based on the unfavorable determination that the workers should be deemed as our employees or dispatched employees under the facts of each particular case.

We cannot assure you that we will not be involved in lawsuits or arbitration cases in which the judge or arbitrator may side with the claimant in determining the relationship with workers on our platform in the future. We also cannot assure you that we will not be subject to government investigations on or challenges to the legality of our workforce model in the future. If, as a result of legislation or judicial decisions, we are required to classify workers on our platform as our employees or dispatched employees, we would incur significant additional expenses for compensating workers on our platform, potentially including expenses associated with various employee benefits pursuant to relevant PRC laws and regulations. In addition, we may be required to fundamentally change our operation model to comply with the relevant PRC laws and regulations, including the requirement that the total number of dispatched employees may not exceed 10% of the total number of employees. We would also be subject to claims for vicarious liability in relation to torts committed by workers during their course of services, or other claims under the relevant PRC laws and regulations. Any of the foregoing could significantly increase our costs to serve customers, harm our reputation and brand, subject us to rectification orders and fines, and cause us to significantly alter our existing business model and operations. As a result, our business, financial condition, results of operations and prospects will be materially and adversely affected.

We may be held liable for breach of contract under our agreements with industry customers.

Our industry customers typically require their third-party service partners, including us, to adhere to their standard form contracts, and there is little room to negotiate terms and conditions that deviate from such standard form contracts. The standard form contracts from such industry customers typically contain certain restrictive terms for third-party service partners, such as certain non-compete provisions, prohibitions on outsourcing to third-party companies, and prohibitions on acquiring other service providers and their customer relationships without seeking prior written consent from such industry customers. Our industry customers also generally require us to enter into labor relationship with workers on our platform, such as delivery riders, in compliance with applicable PRC laws. We cannot assure you that we will be deemed as having strictly adhered to the restrictive terms in the standard form contracts by such industry customers during the course of business. For example, we, through our various subsidiaries, have established business relationships with a number of industry customers, some of whom may regard themselves as competitors with each other. We have also collaborated with third-party labor service companies to attract and manage workers on our platform, and have not entered into employment contracts with workers as we deem them as independent contractors under our business outsourcing arrangements.

We communicated with our major industry customers with respect to their awareness of these facts and obtained affirmation that they had not initiated any legal, arbitral or other proceedings against us for failure to strictly adhere to the above-mentioned restrictive terms as of the date of this annual report. However, if these customers subsequently change their view and lodge claims against us, we cannot assure you that these communications and affirmations will have the force of estoppel or will prompt the court or arbitrator to rule in our favor. We may be held liable for damages and suffer reputational damage if a dispute arises and we fail to contest the allegations successfully. Any disputes between our industry customers and us, regardless of the outcome, may disrupt our existing business relationships or cause them to terminate our business collaboration. We have removed some of these restrictive terms from our renewed contracts with certain industry customers. We intend to continue to re-negotiate the removal of these restrictive terms when renewing our contracts with other industry customers, but we cannot assure you that we will succeed. In addition, our industry customers may amend their standard form contracts to include more stringent terms and conditions. Any of the foregoing could materially and adversely affect our business, financial condition, results of operations and prospects.

We may not compete effectively. If we lose our market shares to competitors in existing markets, or if our expansion into new markets is not successful, our business and prospects may be materially and adversely affected.

While we have not identified any other platform in China with a similar business model and operational scale comparable to us, we may compete with labor outsourcing companies or service suppliers that are independent from or affiliated with industry customers, as well as online or offline workforce marketplaces in each industry setting we serve. Our addressable market within a single industry is highly fragmented, consisting of a large number of small-scale, single-industry service suppliers with limited operational experience or geographical coverage. Our competitors may operate with business models and cost structures different from ours. They may ultimately prove to be more successful or more adaptable to new regulatory, technological and other developments than we are. Some of our current and potential competitors may be able to devote greater financial, technical, marketing and other resources to facilitating their business growth, and may also have longer operating histories, greater brand recognition and stronger customer loyalty than we do. Mergers or strategic alliances among our current or potential competitors may present additional challenges.

Our industry customers are not obligated to use our solutions on an exclusive basis. For example, on-demand delivery platforms may engage multiple service suppliers to fulfill their services to consumers in a single city. As the market competition intensifies, our competitors may offer industry customers lower service fee quotes, which could put us under great financial pressure as we may be required by industry customers to match the lower fee quotes. In response to such competition, we may have to further optimize our solutions or otherwise lower our service fees. If we fail to compete effectively, or if our industry customers become dissatisfied with the service quality of our solutions, they may reduce or even discontinue business collaborations with us and switch to our competitors. As a result, our business, financial condition, results of operations and prospects will be materially and adversely affected.

We have incurred net losses and net cash used in operating activities in the past, and we may not achieve or sustain profitability.

We have grown rapidly over the past several years. However, you should not rely on our revenue from any previous period as an indication of our revenue or revenue growth in future periods. Our revenue growth rate may slow down for a number of reasons, including declined demand for our solution offerings, increasing competition, emergence of alternative business models, changes in regulations and government policies, changes in general economic conditions, outbreaks of health pandemics and other extraordinary events, such as the COVID-19 pandemic, as well as other risks described in this annual report.

We incurred net loss of RMB5.6 million, RMB191.2 million and RMB16.4 million (US\$2.4 million) in 2020, 2021 and 2022, respectively. We recorded net cash generated from operating activities of RMB11.1 million and RMB74.7 million (US\$10.8 million) in 2020 and 2022, respectively, and net cash used in operating activities of RMB30.9 million in 2021. We cannot assure you that we will be able to generate net profit or generate positive cash flow from operating activities in the future. Our ability to achieve profitability will depend in large part on our ability to control expenses and manage our growth effectively. We expect to continue to make investments in the development and expansion of our business, which will place significant demands on our management and our operational and financial resources. Continuous expansion may increase the complexity of our business, and we may encounter various difficulties. We may fail to develop and improve our operational, financial and management controls, enhance our financial reporting systems and procedures, recruit, train and retain highly skilled personnel, or maintain customer satisfaction to effectively support and manage our growth. If we invest substantial time and resources to expand our operations but fail to manage the growth of our business and capitalize on our growth opportunities effectively, we may not be able to achieve profitability, and our business, financial condition, results of operations and prospects would be materially and adversely affected.

As we incur significant costs in connection with certain business lines, our business, financial condition and results of operations may be materially and adversely affected if demand for our solutions under these business lines does not increase as quickly as we anticipate.

We have incurred, and may continue to incur, significant costs in connection with certain business lines. For example, industry customers in the on-demand delivery market typically divide their intra-city delivery network into a number of delivery areas. To expand the geographical coverage of our on-demand delivery business, we have incurred and may continue to incur costs in a lump sum to acquire the rights to render on-demand delivery services in additional delivery areas. In addition, we have made significant investments to rent from third parties a number of vehicles to commence our ride-hailing solutions. Such acquisitions and the build-up of our fleet in advance of actual reservations of our vehicles by ride-hailing drivers could expose us to significant costs in advance. If market demand for our on-demand delivery and ride-hailing solutions does not increase as quickly as we anticipate or at all, our business, financial condition and results of operations may be materially and adversely affected as a result of underutilization of capacity and depreciation of these assets.

Our quarterly results may fluctuate and may not fully reflect the underlying performance of our business due to seasonality.

We experience seasonality in our business, primarily attributable to the seasonality of our industry customers' businesses. For example, we generally experience an increase in demand for our on-demand delivery solutions during inclement weather conditions and holidays and suffer a shortage of workforce during Chinese New Year holidays which may fall between late January and late February. Other seasonal trends may develop, or these current seasonal trends may become more extreme, which would contribute to fluctuations in our results of operations. Our quarterly results of operations, including the levels of our revenues, expenses, net loss or income and other key metrics, may fluctuate due to a variety of factors, some of which are beyond our control, such as consumption patterns of end consumers of our industry customers. As a result, period-to-period comparisons of our results of operations may not be meaningful, especially given our limited operating history.

If the industries our solutions serve or the business of industry customers develop more slowly than we expect, or stagnate or shrink, our growth may slow or even stall, and our business, financial condition, results of operations and prospects could be materially and adversely affected.

Our future success will largely depend on the continued growth of the industries for which we provide our solutions and our industry customers, especially the relatively new and rapidly evolving ones such as the on-demand delivery industry and the ride-hailing industry, which could be affected by levels of discretionary consumer spending. Factors that may harm discretionary consumer spending include general economic conditions, unemployment, consumer debts, reduction in net worth, residential real estate and mortgage markets, taxation, energy prices, interest rates, consumer confidence, and other macroeconomic factors, all of which are beyond our control. Consumers tend to shift to alternatives with lower costs during periods in which disposable income is adversely affected. Under such circumstances, consumers may choose to dine at home instead of ordering takeout from restaurants, take public transportation instead of using ride-hailing services, or reduce spending on other consumer services, such as online accommodation sharing for which we provide housekeeping solutions. Such shifts in consumer behaviors will adversely impact the business of our industry customers, which may in turn materially and adversely affect our business, financial condition, results of operations and prospects.

If we and the VIE fail to obtain requisite approvals, licenses or permits applicable to our and the VIE's business or to comply with applicable laws and regulations, our and the VIE's business, financial condition, results of operations and prospects may be materially and adversely affected.

Our and the VIE's business is subject to governmental supervision and regulation by the relevant PRC government authorities. Government authorities are likely to continue to issue new laws, rules and regulations governing these industries, enhance enforcement of existing laws, rules and regulations, and require us and the VIE to obtain new and additional approvals, licenses or permits.

We and the VIE may fail to obtain all requisite approvals, licenses or permits applicable to our and the VIE's business or renew them upon expiration in a timely manner. For example, failure to pass the annual inspection of our ICP license for the operation of our and the VIE's website could subject us and the VIE to fines, sanctions, or injunction orders. In addition, we and the VIE may be required to obtain additional licenses or permits as a result of business expansion, change in operations or change in applicable laws and regulations.

There are also ambiguities and uncertainties with regard to whether certain approvals, licenses or permits apply to our and the VIE's business. For example, it is uncertain whether we and the VIE are required to obtain an express delivery business permit for on-demand delivery solutions or a human resource service license for the training and management provided to the workers on our and the VIE's platform, although we believe that not obtaining such permit or license is consistent with the current market practice and regulatory regime. However, if PRC government authorities determine otherwise, and if we and the VIE fail to obtain such permits as required, we and the VIE could be subject to fines, sanctions or injunction orders, and we may be forced to alter our business model. As of the date of this annual report, we and the VIE have not experienced any material difficulty or failure in obtaining or renewing all requisite approvals, licenses or permits applicable to our and the VIE's business.

We have entered into collaboration, and may establish or seek collaborations or strategic alliances with other industry players in the future, and we may not timely realize the benefits of such arrangements.

We may from time to time enter into strategic partnerships or cooperation agreements with other businesses to expand our platform. For instance, for our housekeeping and accommodation solutions, we have established collaboration with a local village in China since 2023, so as to expand our coverage of rural B&Bs. For our newly launched international business initiative, we entered into strategic collaboration with an automobile enterprise in China, pursuant to which we help the enterprise expand overseas dealership channels and provide such overseas dealers with online car-hailing and on-demand delivery services and support. In addition, we plan to enhance our solution offerings with AI chatbot technologies by introducing Baidu's ERNIE Bot to our SaaS system, which is expected to assist industry customers for our housekeeping and accommodation solutions with online information maintenance, smart check-in and self-check-out processes for guests. We face significant competition in seeking appropriate strategic partners, and the negotiation process for collaboration, alliances or licensing arrangements can be complex and time-consuming. Moreover, we may not be successful in our efforts to establish a strategic partnership or other alternative arrangements. Any of these relationships may require us to incur non-recurring and other charges, increase our near and long-term expenditures, issue securities that dilute our existing shareholders, or disrupt our management and business. Furthermore, such collaborations are subject to numerous risks, which may include the following:

- such collaboration may fail to integrate into our current product and service offerings;
- collaborators have significant discretion in determining the efforts and resources that they will apply to a collaboration project;
- collaborators may elect not to continue or renew our collaboration due to availability of funding or other external factors, such as a business combination that diverts resources or creates competing priorities;
- collaborators could independently develop, or develop with third parties, products and services that compete directly or indirectly with our products and services; and/or
- disputes may arise between us and collaborators that cause delays in or termination of the collaboration, or that result in costly litigation or arbitration that diverts management's attention and resources or need for additional capital to pursue collaboration initiatives.

As a result, we may not be able to realize the benefit of current or future collaborations and strategic alliances or achieve the revenue or specific net income that justifies such arrangement, which would harm our business, results of operations, financial condition and prospects.

We have limited insurance coverage which could expose us to significant costs and business disruption.

We maintain various insurance policies to safeguard against risks and unexpected events. For example, we purchase personal accident insurance for workers engaged in our on-demand delivery and shared-bike maintenance solutions, as well as automobile insurance for drivers engaged in our ride-hailing solutions. We purchase commercial liability insurance to protect our business against claims of property damage and bodily injury. We also provide our employees with social security insurance, including pension insurance, unemployment insurance, work-related injury insurance and medical insurance. However, we do not maintain property insurance policies covering our equipment and facilities for losses due to fire, earthquake, flood or any other disaster, except for certain service stations for our on-demand delivery solutions. Consistent with customary industry practice in China, we do not maintain business interruption insurance or key-employee insurance for our executive officers. We cannot assure you that our insurance coverage is sufficient to indemnify us against any loss or that we will be able to successfully claim our losses under our current insurance policies on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the insurance compensation amount is significantly less than our actual loss, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Unlawful, improper or otherwise inappropriate activities by workers on our platform while delivering our solutions could expose us to liability and harm our business, brand, reputation, financial condition, results of operations and prospects.

Unlawful, improper or otherwise inappropriate activities by workers on our platform have occurred and could occur again, which could seriously harm our business. These activities include assault, battery, traffic offenses, disputes with consumers, food contamination, theft, unauthorized use of bank cards or bank accounts, sharing of customer account information and other misconduct. The inappropriate activities by workers could expose us to potential liabilities and harm our reputation.

We have implemented policies and measures to detect, identify and address these types of workers' unlawful or inappropriate activities. However, we may fail to implement these measures effectively. We cannot assure you that these measures could adequately or fully address or prevent all unlawful, improper or otherwise inappropriate activities by workers on our platform from occurring. Any negative publicity related to workers' unlawful or inappropriate activities could adversely affect our reputation and brand or public perception of our platform, which could negatively affect the demand for our solutions, and potentially increase our exposure to regulatory and litigation risks. Any of the foregoing risks could harm our business, brand, financial condition and results of operations.

We face potential liabilities, expenses of resolving claims and disputes and harm to our business due to the nature of our business.

We face potential liabilities, expenses of resolving claims and disputes and harm to our business due to the nature of our businesses. For example, for our on-demand delivery solutions, third parties could assert tort claims against us in connection with personal injuries resulting from food poisoning, tampering or accidents caused by delivery riders on our platform during the course of their deliveries.

We have been, and from time to time may continue to be, involved in disputes, claims or proceedings arising from our operations. For example, we are currently involved in several ongoing civil actions. We do not believe that any of them is likely to have a material adverse effect on our business, financial condition or results of operations, considering the consequences and financial exposures of the claims as well as our assessment of the reasonably possible loss. We cannot guarantee, however, that the claimants will not prevail in the ongoing legal actions or that the claimants will not be awarded significant damages should they prevail. The frequency of such claims and disputes could increase as our business continues to grow. These claims and disputes could divert our management's time and attention away from our business and result in significant expenses to investigate and defend, regardless of the merits of the claims and disputes. If we are unsuccessful in our efforts to defend against or resolve these claims and disputes, we may elect or be compelled to change our business practices or may be forced to pay substantial damages, settlement costs, fines and penalties. Furthermore, under certain circumstances, we have contractual and other legal obligations to indemnify and incur legal expenses on behalf of our industry customers and current and former directors and officers. For example, as for our on-demand delivery solutions, we are obligated to indemnify industry customers for personal injury and property loss or damage sustained by any third party caused by us or from the rendering of our delivery services. Any of these consequences could seriously harm our business.

Moreover, as our business engages a large number of workers on our platform, we have been, and may continue to be, involved in various labor disputes from time to time in the ordinary course of business, although none of them, individually or in the aggregate, has had a material adverse impact on us. As our business continues to grow, we expect to continue to be involved in legal or administrative proceedings related to labor disputes.

Our strategic investments or acquisitions may turn out to be unsuccessful and materially and adversely affect our financial condition and results of operations.

We have acquired, and may continue to acquire other assets, technologies, products and businesses that are complementary to our existing business or otherwise. We may also enter into strategic partnerships or cooperation agreements with other businesses to expand our platform. Negotiating these transactions can be time-consuming, challenging and expensive, and our ability to close these transactions may often be subject to regulatory approvals that are beyond our control. In addition, investments and acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, significant amortization expenses related to intangible assets, significant diversion of management attention and exposure to potential unknown liabilities of the acquired business. Moreover, the cost of identifying and consummating investments and acquisitions and integrating the acquired businesses into ours may be significant, and the integration of acquired businesses may be disruptive to our existing business operations. Consequently, these transactions, even if undertaken and announced, may not close. For one or more of those transactions, we may issue additional equity securities that would dilute our shareholders' ownership interest, use cash that we may need in the future to operate our business, incur debt on terms unfavorable to us or that we are unable to repay, incur expenses or substantial liabilities, encounter difficulties retaining key employees of the acquired company or integrating diverse software codes or business cultures, encounter difficulties in assimilating acquired operations, encounter diversion of management's attention to other business concerns, and become subject to adverse tax consequences, substantial depreciation, impairment losses, or deferred compensation charges. For example, we recorded goodwill impairment of RMB52.0 million in 2021 and RMB4.9 million (US\$0.7 million) in 2022. Our goodwill impairment in 2021 was related to the business we acquired for our housekeeping solutions and was primarily due to the impact of the COVID-19 pandemic, which delayed the business integration progress and impacted the business growth rate. Our goodwill impairment in 2022 was related to the reduced service scope of our shared-bike maintenance solutions. If our investments and acquisitions are not successful, our business, financial condition, results of operations and prospects may be materially and adversely affected.

If we fail to develop, maintain, and enhance our brand and reputation cost-effectively, our business and financial condition may be materially and adversely affected.

We believe that the strong recognition of our brand has reduced our costs of attracting workers to collaborate with us through word-of-mouth marketing and contributed significantly to the growth and success of our business. Accordingly, maintaining, protecting and enhancing the recognition of our brand image is critical to our business and market position. Many factors, some of which are beyond our control, are important to maintaining, protecting and enhancing our brand. These factors include our ability to:

- maintain the quality and attractiveness of the solutions we offer;
- maintain or improve the satisfaction of industry customers and their end consumers;
- maintain or improve the quality of our training and management of workers on our platform;
- compete effectively against our existing and future competitors; and
- defend our reputation and brand image generally and in the event of any negative publicity relating to our solutions, workers' safety, internet security, or other issues affecting us or the entire gig economy in China.

A public perception of misconduct by us, workers on our platform or our industry customers, even if factually incorrect or based on isolated incidents, could damage our reputation and harm our brand, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

Any significant disruption to or failures of our technology infrastructure could materially and adversely affect our business, financial condition, results of operations and prospects.

Quhuo+, our proprietary technology infrastructure, is important to help us scale up our business and effectively manage tens of thousands of workers. We utilize *Quhuo+* to monitor the workload and performance of the workers on our platform, which allows us to dynamically manage staffing and maintain solution quality. In addition, utilizing *Quhuo+*, we provide workers with training, onboarding logistics, management support and other value-added services. Therefore, the performance and reliability of *Quhuo+* is critical to our operations and reputation. As we are continually developing and optimizing functions of *Quhuo+*, we may encounter errors, defects, disruptions, or other performance or stability problems with *Quhuo+*, such as computer malware, viruses, spamming and phishing attacks, any of which could result in our inability to manage workers and deliver our solutions. As a result, we may lose our competitive position and market share, and our business, financial condition, results of operations and prospects will be materially and adversely affected.

Our business processes a large amount of data, which subjects us to governmental regulations and other legal obligations related to privacy, information security and data protection. Any improper use or disclosure of such data by us, our employees or our business partners could subject us to significant reputational, financial, legal and operational consequences.

Our business processes a large quantity of personal data of workers on our platform. We also have access to operating data regarding our performance and certain confidential information provided by industry customers. We face risks inherent in handling and protecting such large volumes of data. In particular, we face a number of challenges relating to data protection in our system, including:

- protecting the data in and hosted on our system, including against attacks by third parties or fraudulent behaviors by our employees;
- addressing concerns related to privacy and sharing, safety, security and other factors; and
- complying with applicable laws, rules and regulations relating to the collection, use, disclosure or security of personal information, including any requests from regulatory and government authorities relating to such data.

Any systems failure or security breach or lapse that results in the release of personal data of workers on our platform could harm our reputation and brand and, consequently, our business, in addition to exposing us to potential legal liability. In addition, our industry customers and business partners as well as their employees may improperly use or disclose the data we disclose to them for our operation, and we have limited control over such actions. Any failure, or perceived failure, by us, our employees, our industry customers and business partners, or their employees to comply with privacy policies or with any regulatory requirements or privacy protection-related laws, rules and regulations could result in proceedings or actions against us by governmental entities or others. These proceedings or actions may subject us to significant penalties and negative publicity, require us to change our business practices, increase our costs and severely disrupt our business.

Our practices regarding the use, retention, transfer, disclosure and security of such confidential data could become the subject of enhanced regulations and increased public scrutiny in the future. The regulatory frameworks regarding privacy issues in many jurisdictions are constantly evolving and can be subject to significant changes from time to time. For instance, a growing number of legislative and regulatory bodies have adopted user notification requirements in the event of unauthorized access to or acquisition of certain types of data. In China, the PRC Cybersecurity Law, which became effective in June 2017, leaves substantial uncertainty as to the circumstances and standards under which the law would apply and violations would be found. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Internet Information Security and Privacy Protection.” Complying with these obligations could cause us to incur substantial costs. Any failure to comply with applicable regulations, whether by other third parties or us, or as a result of employee error or negligence or otherwise, could result in regulatory enforcement actions against us and have a material adverse impact on our business operations. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Failure to comply with governmental regulations and other legal obligations concerning data protection and cybersecurity may materially and adversely affect our business, as we routinely process data during the conduct of our business.”

Increases in labor, energy and other costs in China could materially and adversely affect our business and profitability.

China's economy has experienced significant growth, which has resulted in and may further lead to inflation and increased labor costs, energy costs, and vehicle purchase, rental and maintenance costs. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for 2020, 2021 and 2022 were increases of 2.5%, 0.9% and 2.0%, respectively. Consequently, the costs incurred by workers when providing services on our platform have increased, which in turn has increased our cost of revenue. Our costs and operating expenses associated with energy consumption or vehicle leasing may also increase, which would materially and adversely affect our profit margin. If inflation in China continue to increase and we are unable to pass on these increased costs and expenses to our industry customers by increasing our service fees, our cost of revenue and operating expenses will continue to grow, and our business, financial condition, results of operations and prospects could be materially and adversely affected.

Any catastrophe, including outbreaks of health pandemics and other extraordinary events, could have a negative impact on our business operations.

We are vulnerable to natural disasters and other calamities. Fire, floods, typhoons, earthquakes, power loss, telecommunications failures, wars, riots, terrorist attacks or similar events could cause severe disruption to our daily operations and may even require a temporary closure of our facilities. Our business could also be adversely affected by the effects of Ebola virus diseases, H1N1 flu, H7N9 flu, avian flu, Severe Acute Respiratory Syndrome (SARS), COVID-19, or other epidemics. Our business operation could be disrupted if any of our employees or contracted workers are suspected of having any of the aforementioned epidemics or another contagious disease or condition, since it could require our employees and contracted workers to be quarantined or our offices to be disinfected. In addition, our business, financial condition, results of operations and prospects could be materially and adversely affected to the extent that any of these epidemics harms the Chinese economy in general.

For example, since the breakout of the COVID-19 pandemic, many businesses and social activities in China and other countries and regions have been severely disrupted, including those of our industry customers. The global outbreak has also caused market panics, which materially and negatively affected the global financial markets, such as the plunge of global stocks on major stock exchanges in the middle of March 2020. Such disruption and the potential slowdown of the global economy have had and could continue to have a material adverse effect on our results of operations and financial condition. For instance, in 2021, we experienced a surge in the number of delivery orders during the Chinese New Year as a result of the continuing impact of the COVID-19, which exceeded our normal delivery capacity. As a result, we temporarily adopted a subsidy policy to attract, retain and incentivize our workers to perform delivery services during the Chinese New Year. On the other hand, government efforts to contain the spread of COVID-19, including "stay-at-home" advice, widespread business closures, travel restrictions and emergency quarantines, adversely affected the customer demand of our other solutions, including mobility service solutions and housekeeping and accommodation solutions.

We cannot assure you that our business volume and growth rate will fully recover in the near future due to the uncertainties associated with the development of the pandemic. Specifically, the PRC governments at all levels have strategically adjusted pandemic prevention policies and lift the restrictive measures aimed at controlling the spread of the COVID-19 virus since December 2022, and there had been a noticeable uptick in infections among people, which resulted in enterprises imposing their own alternative working arrangements. As a result, we and the VIE experienced temporary disruption to business operations where many of our employees and workers on our platform were infected with COVID-19 in December 2022. If the COVID-19 pandemic persists, or if a significant portion of the population is infected with the virus, which may prompt changes in governmental policies and measures, and our business, results of operations and financial condition could be affected. To the extent that future waves of COVID-19 infections disrupt normal business operations and traveling in China, we may face disrupted market demand and operational challenges with our services. We are closely monitoring the development of the pandemic and continuously evaluating any potential impact on our business, results of operations and financial condition. However, we cannot estimate with any degree of certainty the full impact of the COVID-19 pandemic on our financial condition and future results of operations. The ultimate impact of the COVID-19 pandemic and related mitigation efforts will depend on future developments, including the duration of the COVID-19 pandemic, the acceptance and effectiveness of vaccines, the impact of COVID-19 and related containment and mitigation measures on our industry customers, employees, workforce availability, and the timing and extent to which normal economic and operating conditions resume. In addition, as the COVID-19 pandemic has resulted in significant financial market volatility and uncertainty, a continuation or worsening of the levels of market disruption and volatility in the future could materially and adversely affect our access capital, business, financial condition and results of operations and the market price of the ADSs.

A severe or prolonged downturn in the Chinese or global economy could materially and adversely affect our business and financial condition.

COVID-19 has had a severe and negative impact on the Chinese and global economy since early 2020. Whether this will lead to a prolonged downturn in the economy is still unknown, especially considering the multiple outbreaks in various countries and regions as well as the uncertainties brought by the vaccination programs and recent relaxation of restrictive measures in response to the COVID-19 pandemic. Even before the outbreak of COVID-19, the global macroeconomic environment had been facing challenges. The growth of the Chinese economy has gradually slowed down in recent years and the trend may continue. There is considerable uncertainty over the long-term effects of the monetary and fiscal policies adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China. There have been concerns over unrest and terrorist threats in the Middle East, Europe and Africa and Russia's recent military interventions in Ukraine. There have also been concerns on the relationship between China and other countries, including surrounding Asian countries, which may potentially lead to foreign investors closing down their businesses or withdrawing their investments in China and, thus, exiting the China market, and other economic effects. In particular, there is significant uncertainty about the future relationship between the United States and China with respect to trade policies, treaties, government regulations and tariffs. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations and financial condition.

Our business depends on the continued services of our key employees, including our senior management and other qualified employees.

Our business depends on the continued services of our senior management and other qualified managerial, financial, technical and operations personnel. Competition for well-qualified employees is intense in China. We must offer competitive compensation and opportunities for career growth in order to retain our key employees and attract and retain qualified personnel in the future, which may result in significant costs. If we do not succeed in attracting well-qualified employees or retaining and motivating existing senior management and key employees, our business, results of operations, financial condition and prospects may be materially and adversely affected.

In addition, although we have entered into confidentiality and non-compete agreements with our senior management, we cannot assure you that any of them will not join our competitors or form a competing business. If any dispute arises between our current or former senior management and us, we may have to incur substantial costs and expenses in order to enforce such agreements in China or we may not be able to enforce them at all.

We have incurred and may continue to incur substantial share-based compensation expenses.

We have adopted an equity incentive plan that permits the grant of share options, restricted shares and restricted share units as equity-based awards, to our directors, officers, employees and consultants. We are required to recognize share-based compensation expenses based on the fair value of such share options granted to employees, officers, directors and consultants. We believe the granting of share-based compensation is important to our ability to attract, retain and motivate our management team and qualified employees, and we will continue to grant share-based compensation to employees in the future. We recorded share-based compensation expenses of RMB82.7 million, RMB68.9 million and RMB19.8 million (US\$2.9 million) in 2020, 2021 and 2022, for options granted under a previous share incentive plan, respectively. As of the date of this annual report, we have granted options to purchase 7,857,974 ordinary shares under our 2019 Share Incentive Plan. See “Item 6—Directors, Senior Management and Employees—B. Compensation—Share Incentive Plan” for details. If additional share options or other equity incentives are granted to our employees, directors or consultants in the future, our expenses associated with share-based compensation may increase significantly, which may have a material and adverse effect on our business, financial condition, results of operations and prospects.

We may require additional capital to support the growth of our business, and this capital might not be available on reasonable terms or at all.

We intend to continue to make investments to support our business growth and may require additional funds to continue to operate our business and respond to business challenges or opportunities, including the need to develop new solution offerings or enhance our existing solution offerings, improve our operating infrastructure and acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through future issuances of equity or convertible debt securities, our existing shareholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing that we secure in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may hinder our ability to obtain additional capital or pursue business opportunities, including potential acquisitions. We may not be able to obtain additional financing on terms favorable to us, if at all.

We may consider launching registered or exempted offerings of our securities in the United States to obtain additional financing in the future. On February 17, 2023, the CSRC promulgated Trial Administrative Measures of the Overseas Securities Offering and Listing by Domestic Companies, or the Overseas Listing Trial Measures, and five supporting guidelines, which became effective on March 31, 2023. The Overseas Listing Trial Measures regulate both direct and indirect overseas offering and listing of PRC domestic companies’ securities by adopting a filing-based regulatory regime. Based on the Overseas Listing Trial Measures and the clarification issued by a press conference held by CSRC, we believe that we will be required to complete the filing procedures with the CSRC in connection with our future offshore offerings, in any. We cannot assure you that we can complete the filing procedures in a timely manner or at all, or that new rules or regulations promulgated in the future will not impose any additional requirement or otherwise tightening the regulations on companies with contractual arrangements. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be impaired, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

We currently rely on a small number of third-party cloud computing service providers to host a significant portion of our platform, and any interruptions or delays in services from these third parties could impair the delivery of our offerings and harm our business.

We use third-party cloud computing services. We do not control the operations of our third-party cloud computing service providers. The operations of these third-party cloud computing service providers may experience break-ins, computer viruses, denial-of-service attacks, sabotage, acts of vandalism, and other misconduct. The facilities of these third-party cloud computing service providers may also be vulnerable to damage or interruption from power loss, telecommunications failures, fires, floods, earthquakes, hurricanes, tornadoes, and similar events. The occurrence of any such event or other unanticipated problems may result in our inability to serve data reliably or require us to migrate our data to a new cloud computing service provider. This could be time-consuming and costly and may result in the loss of data, any of which could significantly interrupt the operation of our platform and harm our reputation and brand. We may not be able to easily switch to another cloud provider in the event of any disruptions or interference to the services we use, and even if we do, other cloud providers are subject to the same risks. Additionally, if we are unable to renew our agreements with these third-party cloud computing service providers on commercially reasonable terms, we may experience delays and interruptions in the provision of our solutions, which may in turn reduce our revenue and cause industry customers to stop working with us. As a result, our business, financial condition, results of operations and prospects could be adversely affected.

We may not timely and effectively scale and adapt our existing technology and network infrastructure in line with our business growth, which would materially and adversely affect our business, financial condition, results of operations and prospects.

It is critical to our success that we are able to scale and adapt our existing technology and network infrastructure to accommodate rapidly increasing workers on our platform in line with our business growth. We may experience service disruptions, outages or other performance problems due to a variety of factors, including infrastructure changes, human or software errors, capacity constraints due to an overwhelming number of workers accessing our platform simultaneously, and denial of service or fraud or security attacks. In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time. It may become increasingly difficult to maintain and improve the availability of our platform to workers, especially as we expand our operations into more industries.

We expect to continue to make significant investments to maintain and improve the availability of our platform and to enable rapid releases of new features and products. To the extent that we do not effectively address capacity constraints, respond adequately to service disruptions, upgrade our systems as needed or continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business, financial condition, results of operations and prospects would be materially and adversely affected.

Our operations depend on the performance of the internet infrastructure and telecommunications networks in China.

Almost all access to the internet in China is maintained through state-owned telecommunications operators under the administrative control and regulatory supervision of the Ministry of Industry and Information Technology. We primarily rely on a limited number of telecommunications service providers to provide us with data communications capacity through local telecommunications lines and internet data centers to host our servers. We have limited access to alternative networks or services in the event of disruptions, failures or other problems with China's internet infrastructure or the fixed telecommunications networks provided by telecommunications service providers. With the expansion of our business, we may be required to upgrade our technology and infrastructure to keep up with the increasing traffic on our platform. We cannot assure you that the internet infrastructure and the fixed telecommunications networks in China will be able to support the demands associated with the continued growth in internet usage. In addition, we have no control over the costs of the services provided by telecommunications service providers. If the prices we pay for telecommunications and internet services rise significantly, our financial condition may be adversely affected.

We may not be able to adequately protect our intellectual property, which could cause us to be less competitive.

We regard our intellectual property as critical to our success. Such intellectual property includes trademarks, domain names, copyrights, know-how and proprietary technologies. We currently rely on trademarks, software copyrights, trade secret law, and confidentiality and non-compete agreements with our employees and others to protect our proprietary rights. However, we cannot assure you that any of our intellectual property rights will not be challenged, invalidated or circumvented, or that such intellectual property will be sufficient to provide us with competitive advantages.

Because of the rapid pace of technological change, we cannot assure you that all of our proprietary technologies and similar intellectual property can be patented in a timely or cost-effective manner, or at all. We have not completed the trademark registration for some of our logos. As such, these logos may be squatted by our competitors, in which case we may be forced to adopt a new brand name and deploy additional financial resources to market the new brand name, which may materially and adversely affect our business, financial condition, results of operations and prospects.

It is often difficult to maintain and enforce intellectual property rights in China. Statutory laws and regulations are subject to judicial interpretation and enforcement and may not be applied consistently due to the lack of clear guidance on statutory interpretation. Confidentiality agreements may be breached by counterparties, and there may not be adequate remedies available to us for any such breach. Accordingly, we may not be able to effectively protect our intellectual property rights or to enforce our contractual rights in China. Preventing any unauthorized use of our intellectual property is difficult and costly and the steps we take may be inadequate to prevent the misappropriation of our intellectual property. In the event that we resort to litigation to enforce our intellectual property rights, such litigation could result in substantial costs and a diversion of our managerial and financial resources. We cannot assure you that we will prevail in such litigation. In addition, our trade secrets may be leaked or otherwise become available to, or be independently discovered by, our competitors. To the extent that our employees or consultants use intellectual property owned by others in their work for us, disputes may arise as to the rights in related know-how and inventions. Any failure in protecting or enforcing our intellectual property rights could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may be subject to intellectual property infringement claims, which may be expensive to defend and may disrupt our business and operations.

We cannot assure you that our operations or any aspects of our business do not or will not infringe upon or otherwise violate trademarks, patents, copyrights, know-how or other intellectual property rights held by third parties. From time to time, we may be subject to legal proceedings and claims relating to the intellectual property rights of others. In addition, there may be third-party trademarks, patents, copyrights, know-how or other intellectual property rights that are infringed by our products, services or other aspects of our business without our awareness. Holders of such intellectual property rights may seek to enforce such intellectual property rights against us in China, the United States or other jurisdictions. If any third-party infringement claims are brought against us, we may be forced to divert management's time and other resources from our business and operations to defend against these claims, regardless of their merits.

Additionally, the application and interpretation of China's intellectual property right laws and the procedures and standards for granting trademarks, patents, copyrights, know-how or other intellectual property rights in China are still evolving and are uncertain, and we cannot assure you that PRC courts or regulatory authorities would agree with our analysis. If we were 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. As a result, our business, financial condition, results of operations and prospects may be materially and adversely affected.

If we fail to maintain an effective system of internal controls over financial reporting, we may be unable to accurately report our results of operations, meet our reporting obligations or prevent fraud.

We are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act and the rules and regulations of the Nasdaq Stock Market. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting.

Commencing with our fiscal year ended December 31, 2021, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting in our Form 20-F filing for that year, as required by Section 404 of the Sarbanes-Oxley Act. Our management has concluded that, as of December 31, 2022, our existing disclosure controls and procedures and internal control over financial reporting were effective after the remediation. See “Item 15. Disclosure Controls and Procedures” for details.

We will remain an emerging growth company until the earliest of (1) the last day of the fiscal year during which we have total annual gross revenues of at least US\$1.235 billion; (2) the last day of our fiscal year following the fifth anniversary of the completion of our initial public offering; (3) the date on which we have, during the preceding three-year period, issued more than US\$1.0 billion in non-convertible debt; or (4) the date on which we are deemed to be a “large accelerated filer” under the Exchange Act, which would occur if the market value of the ADSs that are held by non-affiliates exceeds US\$700 million as of the last business day of our most recently completed second fiscal quarter. Once we cease to be an “emerging growth company” as such term is defined in the JOBS Act, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. Our management may conclude that our internal control over financial reporting is not effective. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm, after conducting its own independent testing, may issue a report that is qualified if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. In addition, as we are a public company, our reporting obligations may place a significant strain on our management, operational and financial resources and systems for the foreseeable future. We may be unable to timely complete our evaluation testing and any required remediation.

Our internal control over financial reporting may not prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. In light of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected.

During the course of documenting and testing our internal control procedures, in order to satisfy the requirements of Section 404, we may identify other weaknesses and deficiencies in our internal control over financial reporting. In addition, if we fail to maintain the adequacy of our internal control over financial reporting, as these standards are modified, supplemented or amended from time to time, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. Generally, if we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could in turn limit our access to capital markets, harm our results of operations, and lead to a decline in the trading price of the ADSs. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations and civil or criminal sanctions. We may also be required to restate our financial statements from prior periods.

Lawsuits or allegations of impropriety against us or our management could have a material adverse effect on our reputation, business, financial condition and results of operations.

We have become, and may continue to become, subject to lawsuits or allegations of impropriety brought by industry customers and their consumers, our competitors, or other individuals or entities, including breach of contract, claims of torts, or unfair competition. Any lawsuits or allegations of impropriety, with or without merit, or any perceived unfair, unethical, fraudulent or inappropriate business practice by us or perceived malfeasance by our management could harm our reputation. In addition to the related financial costs, managing and defending such lawsuits and allegations can significantly divert management’s attention from our business operations. We may also need to pay liquidated damages or settle such lawsuits or allegations with a substantial amount of cash. Any of the circumstances could have a material adverse effect on our reputation, business, financial condition and results of operations.

None of the lease agreements of our leased properties has been registered with the relevant PRC government authorities as required by PRC law, which may expose us to potential fines.

Under PRC law, all property lease agreements are required to be registered with the local land and real estate administration bureau. Although failure to do so does not in itself invalidate the leases, the lessees may not be able to defend these leases against bona fide third parties and may also be exposed to potential fines if they fail to rectify such non-compliance within the prescribed time frame after receiving notice from the relevant PRC government authorities. The penalty ranges from RMB1,000 to RMB10,000 for each unregistered lease, at the discretion of the relevant authority. As of the date of this annual report, none of the lease agreements for our leased properties in China has been registered with the relevant PRC government authorities. As of the date of this annual report, we have not been subject to administrative fines and sanctions in this regard. In the event that any fine is imposed on us for our failure to register our lease agreements, we may not be able to recover such losses from the lessors.

Our rights to use our leased properties could be challenged by property owners or other third parties, which may disrupt our operations and cause us to incur relocation costs.

As of the date of this annual report, the lessors of certain of our leased properties in China failed to provide us with valid property ownership certificates or authorizations from the property owners for the lessors to sublease the properties. There is a risk that such lessors may not have the relevant property ownership certificates or the right to lease or sublease such properties to us, in which case the relevant lease agreements may be deemed invalid and we may be forced to vacate these properties, which could interrupt our business operations and cause us to incur relocation costs. Moreover, if third parties challenge our lease agreements, it could result in a diversion of management attention and cause us to incur costs associated with defending such actions, even if such challenges are ultimately determined in our favor.

Failure to make adequate contributions to social insurance and housing fund as required by PRC regulations may subject us to penalties.

In accordance with the PRC Social Insurance Law and the Regulations on the Administration of Housing Fund and other relevant laws and regulations, China establishes a social insurance system and other employee benefits including basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance, maternity insurance, housing fund, and a handicapped employment security fund, or collectively the Employee Benefits. An employer is required to pay the Employee Benefits for its employees in accordance with the rates provided under relevant regulations and withhold the Employee Benefits that should be assumed by the employees.

The VIE and its subsidiaries have not made sufficient contribution of the Employee Benefits for some employees. We have recorded accruals for the estimated underpayment of Employee Benefits, including late fees and fines, in our financial statements. As advised by our PRC counsel, we may be subject to late fees and fines for our insufficient contributions to the Employee Benefits and non-registration of an account for social insurance or housing fund. As of the date of this annual report, we, including the VIE and its subsidiaries, have not received any notice from the relevant government authorities or any claim or request from these employees in this regard. However, we cannot assure you that the relevant government authorities will not require us to pay the outstanding amount and impose late fees or fines on us, in which case our business, financial condition and results of operations may be adversely affected.

Risks Related to Doing Business in China

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

Our revenues are all sourced from China. Accordingly, our business, financial condition, results of operations and prospects are influenced by economic, political and legal developments in China. Economic reforms begun in the late 1970s have resulted in significant economic growth. However, any economic reform policies or measures in China may from time to time be modified or revised. China's economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past 30 years, growth has been uneven across different regions and among different economic sectors.

The PRC government exercises significant control over China's economic growth through strategically allocating resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Although the PRC economy has grown significantly in the past decade, that growth may not continue, as evidenced by the slowing of the growth of the PRC economy since 2012. In addition, China's economic condition has been, and may continue to be, impacted by the recent global outbreak of COVID-19 and the corresponding government-mandated quarantine measures. Any adverse changes in economic conditions in China, in the policies of the PRC government or in the laws and regulations in China could have a material adverse effect on the overall economic growth of China. Such developments could adversely affect our business, financial condition and results of operations, lead to reduction in demand for our services and adversely affect our competitive position.

Furthermore, our company, the VIE and its subsidiaries, and our investors may face uncertainty about future actions by the government of China that could significantly affect the VIE and its subsidiaries' financial performance and operations, including the enforceability of the contractual arrangements. As of the date of this annual report, neither our company nor the VIE have received or have been denied permission from Chinese authorities to list on a U.S. exchange. However, there is no guarantee that our company or the VIE will receive or not be denied permission from Chinese authorities to list on a U.S. exchange in the future.

Uncertainties with respect to the PRC legal system could adversely affect us.

The PRC legal system is based on written statutes and court decisions that have limited precedential value. The PRC legal system is evolving rapidly, and therefore the interpretations and enforcement of many laws, regulations and rules may contain inconsistencies and uncertainties.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC judicial and administrative authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to predict the outcome of a judicial or administrative proceeding than in more developed legal systems. Furthermore, the PRC legal system is based, in part, on government policies and internal rules, some of which are not published in a timely manner, or at all, but which may have retroactive effect. As a result, we may not always be aware of any potential violation of these policies and rules. These uncertainties may impede our contractual, property and procedural rights, which could adversely affect our business, financial condition and results of operations.

Any actions by the Chinese government, including any decision to intervene or influence the operations of our PRC subsidiary or the affiliated entities or to exert control over any offering of securities conducted overseas and/or foreign investment in China-based issuers, may cause us to make material changes to the operations of our PRC subsidiary or the affiliated entities, may limit or completely hinder our ability to offer or continue to offer securities to investors, and may cause the value of such securities to significantly decline or be worthless.

The Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. The ability of our subsidiaries and the affiliated entities to operate in China may be impaired by changes in its laws and regulations, including those relating to value-added telecommunications service industry, taxation, land use rights, foreign investment limitations, and other matters.

The central or local governments of China may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our PRC subsidiary and the affiliated entities' compliance with such regulations or interpretations. As such, our PRC subsidiary and the affiliated entities may be subject to various government actions and regulatory interference in the provinces in which they operate. They could be subject to regulation by various political and regulatory entities, including various local and municipal agencies and government sub-divisions. They may incur increased costs necessary to comply with existing and newly adopted laws and regulations or penalties for any failure to comply.

Furthermore, it is uncertain when and whether we will be required to obtain permission from the PRC government to maintain our listing status on a U.S. exchange in the future, and even when such permission is obtained, whether it will be later denied or rescinded. See “—Risks Related to Our Business and Industry—We may require additional capital to support the growth of our business, and this capital might not be available on reasonable terms or at all.”

Accordingly, government actions in the future, including any decision to intervene or influence the operations of our PRC subsidiary or the affiliated entities at any time, or to exert control over an offering of securities conducted overseas and/or foreign investment in China-based issuers, may cause us to make material changes to the operations of our PRC subsidiary or the affiliated entities, may limit or completely hinder our ability to offer or continue to offer securities to investors, and/or may cause the value of such securities to significantly decline or be worthless. See “—The approval of and the filing with the CSRC or other PRC government authorities may be required in connection with our future offshore offerings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing” for details.

The approval of and the filing with the CSRC or other PRC government authorities may be required in connection with our future offshore offerings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing.

The Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009, include, among other things, provisions that purport to require that an offshore special purpose vehicle, formed for the purpose of an overseas listing of securities through acquisitions of PRC domestic enterprises or assets and controlled by PRC enterprises or individuals, to obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange. On September 21, 2006, pursuant to the M&A Rules and other PRC laws, the CSRC published on its official website relevant guidance regarding its approval of the listing and trading of special purpose vehicles’ securities on overseas stock exchanges, including a list of application materials. However, substantial uncertainty remains regarding the scope and applicability of the M&A Rules to offshore special purpose vehicles.

On July 6, 2021, the relevant PRC government authorities issued Opinions on Strictly Cracking Down Illegal Securities Activities in accordance with the Law. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. These opinions and any related implementation rules to be enacted may subject us to additional compliance requirement in the future. As these opinions were recently issued, official guidance to act upon and the interpretation thereof remain unclear at this time. We cannot assure that we will remain fully compliant with all new regulatory requirements of these opinions or any future implementation rules on a timely basis, or at all.

On February 17, 2023, the CSRC promulgated Trial Administrative Measures of the Overseas Securities Offering and Listing by Domestic Companies, or the Overseas Listing Trial Measures, and five supporting guidelines, which became effective on March 31, 2023. According to the Overseas Listing Trial Measures, PRC domestic companies that seek to offer and list securities in overseas markets, either in direct or indirect means, are required to fulfill the filing procedure with the CSRC and report relevant information. The Overseas Listing Trial Measures provides that an overseas listing or offering is explicitly prohibited, if any of the following: (1) such securities offering and listing is explicitly prohibited by provisions in laws, administrative regulations and relevant state rules; (2) the intended securities offering and listing may endanger national security as reviewed and determined by competent authorities under the State Council in accordance with law; (3) the domestic company intending to make the securities offering and listing, or its controlling shareholder(s) and the actual controller, have committed relevant crimes such as corruption, bribery, embezzlement, misappropriation of property or undermining the order of the socialist market economy during the latest three years; (4) the domestic company intending to make the securities offering and listing is currently under investigations for suspicion of criminal offenses or major violations of laws and regulations, and no conclusion has yet been made thereof; or (5) there are material ownership disputes over equity held by the domestic company’s controlling shareholder(s) or by other shareholder(s) that are controlled by the controlling shareholder(s) and/or actual controller.

The Overseas Listing Trial Measures also provides that if the issuer meets both the following criteria, the overseas securities offering and listing conducted by such issuer will be deemed as indirect overseas offering by PRC domestic companies: (1) 50% or more of any of the issuer’s operating revenue, total profit, total assets or net assets as documented in its audited consolidated financial statements for the most recent fiscal year is accounted for by domestic companies; and (2) the main parts of the issuer’s business activities are conducted in mainland China, or its main place(s) of business are located in mainland China, or the majority of senior management staff in charge of its business operations and management are PRC citizens or have their usual material events in mainland China.

The Overseas Listing Trial Measures further provides that, initial public offerings or listings in overseas markets by domestic companies, either in direct or indirect form shall be filed with the CSRC pursuant to the requirements of the Overseas Listing Trial Measures within three business days after the relevant application is submitted overseas. The companies that had already been listed on overseas stock exchanges prior to March 31, 2023 or the companies that had obtained the approval from overseas supervision administrations or stock exchanges for its offering and listing prior to March 31, 2023 and will complete their overseas offering and listing prior to September 30, 2023 are not required to make immediate filings for its listing, but are required make filings for subsequent offerings in accordance with the Overseas Listing Trial Measures. Companies that had already submitted an application for an initial public offering to overseas supervision administrations but had not yet obtained the approval from overseas supervision administrations or stock exchanges for the offering and listing prior to March 31, 2023 may arrange for the filing within a reasonable time period and should complete the filing procedure before such companies' overseas issuance and listing. Companies, like us, that had already been listed overseas as of March 31, 2023 are not required to make immediate filing with the CSRC but are required to file with the CSRC within three business days after the completion of subsequent securities offerings in the same overseas market where its securities were previously offered and listed, or file the required filing materials with the CSRC within three working days after the submission of relevant application for subsequent securities offerings and listings in other overseas markets. In addition, an overseas listed company is required to report to the CSRC within three business days after the occurrence and announcement of any of the following material events: (1) a change of control of the listed company; (2) the investigation, sanction or other measures undertaken by any foreign securities regulatory agencies or authorities in respect of the listed company; (3) a change of listing status or transfer of listing segment; and (4) the voluntary or mandatory delisting of the listed company. If there is any material change of the principal business of the listed company after the overseas offering and listing so that the listed company is no longer required to file with the CSRC, it shall file a specific report and a legal opinion issued by a domestic law firm to the CSRC within three business days after the occurrence thereof.

There can be no assurance that we can complete the filing procedures, obtain the approvals or authorizations, or complete required procedures or other requirements in a timely manner, or at all. We may also not be able to obtain a waiver of the requisite requirements if and when procedures are established to obtain such a waiver, and may face adverse actions or sanctions by the CSRC or other PRC regulatory agencies. In any such event, these regulatory agencies may impose fines and penalties on our operations in China, limit our operating privileges in China, delay or restrict the repatriation of the proceeds from offshore fund-raising activities into the PRC or take other actions that could materially adversely affect our business, financial condition, results of operations, reputation and prospects, as well as the trading price of the ADSs.

On December 27, 2021, the NDRC and MOFCOM jointly issued the Negative List (2021 Version), which became effective on January 1, 2022. Pursuant to the Negative List (2021 Version), if a PRC company engaging in the prohibited business stipulated in the Negative List (2021 Version) seeks an overseas offering and listing, it shall obtain the approval from the competent governmental authorities. The foreign investors of the issuer shall not be involved in the company's operation and management, and their shareholding percentages shall be subject, mutatis mutandis, to the relevant regulations on the domestic securities investments by foreign investors. As the 2021 Negative List is relatively new, there remain substantial uncertainties as to the interpretation and implementation of these new requirements, and it is unclear as to whether and to what extent listed companies like us will be subject to these new requirements. If we are required to comply with these requirements and fail to do so on a timely basis, if at all, our business operation, financial condition and business prospect may be adversely and materially affected.

In addition, we cannot assure you that any new rules or regulations promulgated in the future will not impose additional requirements on us. If it is determined in the future that approval and filing from the CSRC or other regulatory authorities or other procedures, including the cybersecurity review under the Measures for Cybersecurity Review and the annual data security review under the Administrative Measures for Internet Data Security, are required for our offshore offerings, it is uncertain whether we can or how long it will take us to obtain such approval or complete such filing procedures and any such approval or filing could be rescinded or rejected. For details, see “—Failure to comply with governmental regulations and other legal obligations concerning data protection and cybersecurity may materially and adversely affect our business.” Any failure to obtain or delay in obtaining such approval or completing such filing procedures for our offshore offerings, or a rescission of any such approval or filing if obtained by us, may subject us to sanctions by the CSRC or other PRC regulatory authorities, which could materially and adversely affect our business, results of operations, financial condition and prospects, as well as the trading price of our listed securities. See “Item 4. Information on the Company —B. Business Overview—Regulations—Regulations Relating to Internet Information Security and Privacy Protection.” The CSRC or other PRC regulatory authorities also may take actions requiring us, or making it advisable for us, to halt our offshore offerings before settlement and delivery of the shares offered. Consequently, if investors engage in market trading or other activities in anticipation of and prior to settlement and delivery, they do so at the risk that settlement and delivery may not occur. In addition, if the CSRC or other regulatory authorities later promulgate new rules or explanations requiring that we obtain their approvals or accomplish the required filing or other regulatory procedures for our prior offshore offerings, we may be unable to obtain a waiver of such approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties or negative publicity regarding such approval requirement could materially and adversely affect our business, prospects, financial condition, reputation, and the trading price of our listed securities.

Substantial uncertainties exist with respect to the interpretation and implementation of cybersecurity related regulations and cybersecurity review as well as any impact these may have on our business operations.

The cybersecurity legal regime in China is relatively new and evolving rapidly, and their interpretation and enforcement involve significant uncertainties. As a result, it may be difficult to determine what actions or omissions may be deemed to be in violations of applicable laws and regulations in certain circumstances.

Network operators in China are subject to numerous laws and regulations, and have the obligations to, among others, (1) establish internal security management systems that meet the requirements of the classified protection system for cybersecurity, (2) implement technical measures to monitor and record network operation status and cybersecurity incidents, (3) implement data security measures such as data classification, backups and encryption, and (4) submit for cybersecurity review under certain circumstances.

On November 7, 2016, the Standing Committee of the National People’s Congress of the PRC, or the SCNPC, issued the Cyber Security Law, which imposes more stringent requirements on operators of “critical information infrastructure,” especially in data storage and cross-border data transfer.

On June 10, 2021, the SCNPC promulgated the PRC Data Security Law, which became effective in September 2021. The PRC Data Security Law imposes data security and privacy obligations on entities and individuals carrying out data activities, and introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, and 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, illegally acquired or used. The PRC Data Security Law also provides for a national security review procedure for data activities that may affect national security and imposes export restrictions on certain data and information. Furthermore, along with the promulgation of the Opinions on Strictly Cracking Down Illegal Securities Activities in accordance with the Law, overseas-listed China-based companies are experiencing a heightened scrutiny over their compliance with laws and regulations regarding data security, cross-border data flow and management of confidential information from PRC regulatory authorities.

On July 30, 2021, the State Council of the PRC promulgated the Regulations on the Protection of the Security of Critical Information Infrastructure, or the Regulations, which took effect on September 1, 2021. The Regulations supplement and specify the provisions on the security of critical information infrastructure as stated in the Cybersecurity Review Measures. The Regulations provide, among others, that protection department of certain industry or sector shall notify the operator of the critical information infrastructure in time after the identification of certain critical information infrastructure. As of the date of this annual report, no detailed rules or implementation have been issued by any Protection Departments and we have not been informed that we are identified as a critical information infrastructure operator by any governmental authorities.

On August 20, 2021, the SCNPC promulgated the Personal Information Protection Law of the PRC, or the Personal Information Protection Law, which became effective in November 2021. As the first systematic and comprehensive law specifically for the protection of personal information in the PRC, the Personal Information Protection Law provides, among others, that (1) an individual's consent shall be obtained to use sensitive personal information, such as biometric characteristics and individual location tracking, (2) personal information operators using sensitive personal information shall notify individuals of the necessity of such use and impact on the individual's rights, and (3) where personal information operators reject an individual's request to exercise his or her rights, the individual may file a lawsuit with a People's Court.

On November 14, 2021, the CAC published a discussion draft of the Administrative Measures for Internet Data Security, or the Draft Measures for Internet Data Security, which provides that data processors conducting the following activities shall apply for cybersecurity review: (1) merger, reorganization or division of internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests affects or may affect national security; (2) listing abroad of data processors processing over one million users' personal information; (3) listing in Hong Kong which affects or may affect national security; or (4) other data processing activities that affect or may affect national security. There have been no clarifications from the authorities as of the date of this annual report as to the standards for determining such activities that "affects or may affect national security." The CAC had solicited comments on this draft until December 13, 2021, but there is no timetable as to when it will be enacted. The Draft Measures for Internet Data Security, if enacted as proposed, may materially impact our capital raising activities. Any failure to obtain such approval or clearance from the regulatory authorities could materially constrain our liquidity and have a material adverse impact on our business operations and financial results, especially if we need additional capital or financing. Considering the substantial uncertainties existing with respect to the enactment timetable, final content, interpretation and implementation of the Draft Measures for Internet Data Security, in particular with respect to the explanation or interpretation for what activities "affects or may affect national security," there remain uncertainties as to whether our data processing activities may be deemed to affect national security, thus subjecting us to a cybersecurity review. As of the date of this annual report, we have not received any formal notice from any cybersecurity regulator that we shall be subject to a cybersecurity review.

On December 28, 2021, the CAC, the NDRC, the MIIT, and several other administrations jointly published the Measures for Cybersecurity Review, effective on February 15, 2022, which provides that certain operators of critical information infrastructure purchasing network products and services or network platform operators carrying out data processing activities, which affect or may affect national security, must apply with the Cybersecurity Review Office for a cybersecurity review, and that online platform operators holding personal information of over one million users that intend to list their securities on a foreign stock exchange must apply for cybersecurity review. We currently do not have over one million users' personal information and do not anticipate that we will be collecting over one million users' personal information in the foreseeable future. However, as advised by our PRC counsel, the exact scope of operators of "critical information infrastructure" under the Measures for Cybersecurity Review and current PRC regulatory regime remains unclear, and is subject to the decisions of the relevant PRC government authorities that have been delegated the authority to identify operators of "critical information infrastructure" in their respective jurisdictions (including regions and industries). PRC government authorities have wide discretion in the interpretation and enforcement of these laws, including the identification of operators of "critical information infrastructure" and the interpretation and enforcement of requirements potentially applicable to such operators of "critical information infrastructure." As of the date of this annual report, we have not been identified as an operator of "critical information infrastructure." If we are identified as such in the future, we would be required to fulfill various obligations as required under PRC cybersecurity laws and other applicable laws for such operators of "critical information infrastructure," including, among others, setting up a special security management organization, organizing regular cybersecurity education and training, formulating emergency plans for cyber security incidents and conducting regular emergency drills, and we may need to follow cybersecurity review procedure and apply with Cybersecurity Review Office before making certain purchases of network products and services. During cybersecurity review, we may be required to suspend the provision of any existing or new services to users, and we may experience other disruptions of operations, which could lead to adverse impacts on our business. The cybersecurity review could also lead to negative publicity and a diversion of time and attention of our management and other resources. It could be costly and time-consuming for us to prepare application materials and make the applications. Furthermore, there can be no assurance that we will obtain the clearance or approval for these applications from the Cybersecurity Review Office and the relevant regulatory authorities in a timely manner, or at all. If we are found to be in violation of cybersecurity requirements in China, the relevant governmental authorities may, at their discretion, conduct investigations, levy fines, or require us to change business practices in a manner materially adverse to our business. Any of these actions may disrupt our operations and adversely affect our business, results of operations and financial condition.

On July 7, 2022, the CAC promulgated the Measures for the Security Assessment of Cross-Border Transfer of Data, which took effect on September 1, 2022. These measures aim to regulate cross-border transfers of data, requiring among other things, that data processors that provide data to overseas apply to CAC for security assessments if: (1) data processors provide important data to overseas; (2) critical information infrastructure operators or data processors process personal information of more than a million people provide personal information to overseas; (3) data processors that have cumulatively provided personal information of 100,000 people or sensitive personal information of 10,000 people to overseas since January 1 of the previous year, provide personal information to overseas; or (4) other scenarios required by the CAC to apply for security assessments occur. In addition, these measures require data processors to carry out self-assessments of risks of providing data to overseas before applying to the CAC for security assessments.

On February 24, 2023, the CSRC, the Ministry of Finance, the National Administration of State Secrets Protection and the National Archives Administration released the revised Provisions on Strengthening Confidentiality and Archives Administration of Overseas Securities Offering and Listing by Domestic Companies, or the Archives Rules, which became effective on March 31, 2023. The Archives Rules regulate both overseas direct offerings and overseas indirect offerings, providing that, among other things:

- in relation to the overseas listing activities of PRC enterprises, the PRC enterprises are required to strictly comply with the relevant requirements on confidentiality and archives management, establish a sound confidentiality and archives system, and take necessary measures to implement their confidentiality and archives management responsibilities;
- during the course of an overseas offering and listing, if a PRC enterprise needs to publicly disclose or provide to securities companies or securities service providers and overseas regulators, any materials that contain relevant state secrets, government work secrets or information that has a sensitive impact (i.e. be detrimental to national security or the public interest if divulged), the PRC enterprise should complete the relevant approval/filing and other regulatory procedures; and
- working papers produced in the PRC by securities companies and securities service providers, which provide PRC enterprises with securities services during their overseas issuance and listing, should be stored in the PRC, and competent PRC authorities must approve the transmission of all such working papers to recipients outside the PRC.

Any failure or perceived failure by us to comply with the above confidentiality and archives administration requirements and other PRC laws and regulations may result in us being held legally liable by competent authorities. The interpretation and application of these cybersecurity laws, regulations and standards are still uncertain and evolving, especially the Draft Measures for Internet Data Security. We cannot assure you that relevant governmental authorities will not interpret or implement these and other laws or regulations in ways that may negatively affect us.

The ADSs may be delisted from a U.S. exchange and prohibited from being traded over-the-counter in the United States under the HFCAA if the PCAOB determines in the future that it is unable to fully inspect or investigate our auditors who are located in China. The delisting and cease of trading of the ADSs, or the threat of their being delisted or prohibited from being traded, may materially and adversely affect the value of your investment. Additionally, the inability of the PCAOB to conduct inspections deprives our investors of the benefits of such inspections.

The HFCAA was enacted in December 2020 and was subsequently amended in December 2022. The HFCAA states if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspection by the PCAOB for two consecutive years beginning in 2021, the SEC shall prohibit our shares or ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the United States.

According to Article 177 of the PRC Securities Law (last amended in March 2020), no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities in China. Accordingly, without the consent of the competent PRC securities regulators and relevant authorities, no organization or individual may provide the documents and materials relating to securities business activities to overseas parties. Therefore, the audit working papers of our financial statements may not be fully inspected by the PCAOB without the approval of the PRC authorities. The ADSs could be delisted and prohibited from being traded over-the-counter under the HFCAA if the PCAOB determines in the future that it is unable to fully inspect or investigate our auditor which has a presence in China.

On March 24, 2021, the SEC adopted interim final rules relating to the implementation of certain disclosure and documentation requirements of the HFCAA. On September 22, 2021, the PCAOB adopted a final rule implementing the HFCAA, which provides a framework for the PCAOB to determine, as contemplated under the HFCAA, whether the PCAOB is unable to

inspect or investigate completely registered public accounting firms located in a foreign jurisdiction because of a position taken by one or more authorities in that jurisdiction. On December 2, 2021, the SEC adopted amendments to finalize the implementation of disclosure and documentation measures, which require us to identify, in our annual report on Form 20-F, (1) the auditors that provided opinions to the financial statements presented in the annual report, (2) the location where the auditors' report was issued, and (3) the PCAOB ID number of the audit firm or branch that performed the audit work.

On August 26, 2022, the CSRC, the Ministry of Finance of China, and the PCAOB signed the Protocol, which established a specific and accountable framework for the PCAOB to conduct inspections and investigations of PCAOB-governed accounting firms in mainland China and Hong Kong. Pursuant to the Protocol, the PCAOB has the sole discretion in selecting the subject of its inspections and investigations without input from the Chinese authorities, and procedures are in place to allow PCAOB inspectors and investigators to review complete audit working papers of accounting firms located in mainland China and Hong Kong. On December 15, 2022, the PCAOB announced that it was able to secure complete access to inspect and investigate PCAOB-registered public accounting firms headquartered in mainland China and Hong Kong in 2022, and the PCAOB Board vacated its previous determinations that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong. However, it remains unclear whether the PCAOB will continue to be able to satisfactorily conduct inspections of PCAOB-registered public accounting firms headquartered in mainland China and Hong Kong, which depends on a number of factors out of our and our auditor's control. The PCAOB continues to demand complete access in mainland China and Hong Kong moving forward and is already making plans to resume regular inspections in early 2023 and beyond, as well as to continue pursuing ongoing investigations and initiate new investigations as needed. The PCAOB has indicated that it will act immediately to consider the need to issue new determinations with the HFCAA if needed.

On October 6, 2022, the SEC conclusively named us as a "commission-identified issuer" following the filing of our annual report on Form 20-F for the year ended December 31, 2021. We dismissed Ernst & Young Hua Ming, or EY, and appointed Marcum Asia CPAs LLP, or Marcum Asia, as our independent registered public accounting firm, effective from October 31, 2022. EY, our former auditor, is an independent public accounting firm registered with the PCAOB. EY audited our financial statements for the fiscal years ended December 31, 2020 and 2021, included elsewhere in this annual report. Our former auditor is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. Our former auditor, EY, is located in China, a jurisdiction where the PCAOB has been historically unable to conduct inspections without the approval of the relevant PRC authorities. Our current auditor, Marcum Asia, as an auditor of companies that are traded publicly in the United States and a firm registered with the PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. Marcum Asia is headquartered in New York, New York, and, as of the date of this annual report, has not been determined by the PCAOB as being unable to be inspected or investigated completely. For the foregoing reasons, we do not expect to be identified as a "commission-identified issuer" following the filing of our annual report for the year ended December 31, 2022.

Notwithstanding the foregoing, our ability to retain an auditor subject to PCAOB inspection and investigation, including but not limited to inspection of the audit working papers related to us, may depend on the relevant positions of U.S. and Chinese regulators. If, in the future, we have been identified by the SEC for two consecutive years as a "commission-identified issuer" whose registered public accounting firm is determined by the PCAOB that it is unable to inspect or investigate completely because of a position taken by one or more authorities in China, the SEC may prohibit our shares or the ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the United States. In addition, it remains unclear what the SEC's implementation process related to the above rules will entail or what further actions the SEC, the PCAOB or Nasdaq will take to address these issues and what impact those actions will have on companies that have significant operations in China and have securities listed on a U.S. stock exchange (including a national securities exchange or over-the-counter stock market). We cannot assure you whether regulatory authorities would apply additional and more stringent criteria to us after considering the effectiveness of our auditor's audit procedures and quality control procedures, adequacy of personnel and training, or sufficiency of resources, geographic reach or experience as it relates to the audit of our financial statements. If we fail to meet the new listing standards specified in the HFCAA, we could face possible delisting from the Nasdaq Stock Market, cessation of trading in over-the-counter market, deregistration from the SEC and/or other risks, which may materially and adversely affect the trading price of the ADSs or terminate the trading of the ADSs in the United States.

Furthermore, the PCAOB's inability to conduct inspections in China in the past prevented it from fully evaluating the audits and quality control procedures of our prior independent registered public accounting firm. As a result, we and our investors were deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors with presence in China in the past made it more difficult to evaluate the effectiveness of our prior independent registered public accounting firm's audit procedures or quality control procedures as compared to auditors outside of China that were subject to the PCAOB inspections, which

could cause investors and potential investors in our securities to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

It may be difficult for overseas regulators to conduct investigation or collect evidence within China.

Shareholder claims or regulatory investigation that are common in the United States generally are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to providing information needed for regulatory investigations or litigations initiated outside China. Although the authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such cooperation with the securities regulatory authorities in the United States may not be efficient in the absence of mutual and practical cooperation mechanism. Furthermore, according to Article 177 of the PRC Securities Law, which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities within the PRC territory. While detailed interpretation of the implementation rules under Article 177 have yet to be promulgated, the inability for an overseas securities regulator to directly conduct investigation or evidence collection activities within China may further increase the difficulties you face in protecting your interests. See also “—Risks Related to the ADSs—You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts may be limited, because we are incorporated under Cayman Islands law and conduct our operations primarily in China.”

The custodians or authorized users of our controlling non-tangible assets, including chops and seals, may fail to fulfill their responsibilities, or misappropriate or misuse these assets.

Under the PRC law, legal documents for corporate transactions, including agreements and contracts, are executed using the chop or seal of the signing entity or with the signature of a legal representative whose designation is registered and filed with relevant PRC market regulation administrative authorities.

In order to secure the use of our chops and seals, we have established internal control procedures and rules for using these chops and seals. In any event that the chops and seals are intended to be used, the responsible personnel will submit a formal application, which will be verified and approved by authorized employees in accordance with our internal control procedures and rules. In addition, in order to maintain the physical security of our chops, we generally have them stored in secured locations accessible only to authorized employees. Although we monitor such authorized employees, the procedures may not be sufficient to prevent all instances of abuse or negligence. There is a risk that our employees could abuse their authority, for example, by entering into a contract not approved by us or seeking to gain control of one of our subsidiaries or the affiliated entities or their subsidiaries. If any employee obtains, misuses or misappropriates our chops and seals or other controlling non-tangible assets for whatever reason, we could experience disruption to our normal business operations. We may have to take corporate or legal action, which could involve significant time and resources to resolve and divert management from our operations, and we may not be able to recover our loss due to such misuse or misappropriation if the third party relies on the apparent authority of such employees and acts in good faith.

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

The value of the Renminbi against the U.S. dollar and other currencies is affected by changes in China's political and economic conditions and China's foreign exchange policies, among other things. In 2005, the PRC government changed its decades-old policy of pegging the value of the Renminbi to the U.S. dollar, and the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. On November 30, 2015, the Executive Board of IMF completed the regular five-year review of the basket of currencies that make up the Special Drawing Right, or the SDR, and decided that with effect from October 1, 2016, Renminbi is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollar, the Euro, the Japanese yen and the British pound. In the fourth quarter of 2016, the Renminbi has depreciated significantly against the backdrop of a surging U.S. dollar and persistent capital outflows from China. This depreciation halted in 2017, and the Renminbi appreciated approximately 7% against the U.S. dollar during this one-year period. In 2018, a new round of Renminbi depreciation emerged under the influence of a strong U.S. dollar and the Sino-U.S. trade friction. In August 2019, Renminbi once plunged to the weakest level against the US dollar in more than a decade, which raised fears of further escalation in the Sino-US trade friction as the United States labeled China as a currency manipulator after such sharp depreciation. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system and we cannot assure you that Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and the U.S. dollar in the future.

Significant revaluation of the Renminbi may have a material adverse effect on your investment. For example, to the extent that we need to convert U.S. dollars we receive from our initial public offering in July 2020 into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or the ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency.

Governmental control of currency conversion may limit our ability to utilize our revenues effectively and affect the value of your investment.

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in Renminbi. Under our current corporate structure, our Cayman Islands holding company may rely on dividend payments from our PRC subsidiary to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval of SAFE by complying with certain procedural requirements. Specifically, under the existing exchange restrictions, without prior approval of SAFE, cash generated from the operations of our PRC subsidiary in China may be used to pay dividends to our company. However, approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. As a result, we need to obtain SAFE approval to use cash generated from the operations of our PRC subsidiary and affiliated entities to pay off their respective debt in a currency other than Renminbi owed to entities outside China, or to make other capital expenditure payments outside China in a currency other than Renminbi.

In light of the flood of capital outflows of China in 2016 due to the weakening Renminbi, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movement including overseas direct investment. More restrictions and substantial vetting process are put in place by SAFE to regulate cross-border transactions falling under the capital account. If any of our shareholders regulated by such policies fails to satisfy the applicable overseas direct investment filing or approval requirement timely or at all, it may be subject to penalties from the relevant PRC authorities. The PRC government may at its discretion further restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of the ADSs.

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

The Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009, and some other regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements in some instances that MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Moreover, the Anti-Monopoly Law requires that MOFCOM shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. In addition, the security review rules issued by MOFCOM that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise “national defense and security” concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns are subject to strict review by MOFCOM, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from MOFCOM or its local counterparts may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may affect our ability to capitalize or otherwise fund our PRC operations.

We are an offshore holding company conducting our operations in China through our PRC subsidiary and the affiliated entities. We may make loans to our PRC subsidiary and affiliated entities, or we may make additional capital contributions to our PRC subsidiary, or we may establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries, or we may acquire offshore entities with business operations in China in an offshore transaction.

Most of these activities are subject to PRC regulations and approvals. For example, loans by us to our wholly owned PRC subsidiary to finance its activities cannot exceed statutory limits and must be registered with the local counterpart of SAFE. If we decide to finance our wholly owned PRC subsidiary by means of capital contributions, these capital contributions are subject to the requirement of making necessary reporting or filings in the foreign investment comprehensive administrative system and registration with other governmental authorities in China. Due to the restrictions imposed on loans in foreign currencies extended to PRC domestic companies, we are not likely to make such loans to the affiliated entities as PRC domestic companies. Further, we are not likely to finance the activities of the affiliated entities by means of capital contributions due to regulatory restrictions relating to foreign investment in PRC domestic enterprises engaged in value-added telecommunications services and certain other businesses.

SAFE promulgated the Circular on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise, or SAFE Circular 19, effective June 2015, in replacement of the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign Invested Enterprises, the Notice from the State Administration of Foreign Exchange on Relevant Issues Concerning Strengthening the Administration of Foreign Exchange Businesses, and the Circular on Further Clarification and Regulation of the Issues Concerning the Administration of Certain Capital Account Foreign Exchange Businesses. According to SAFE Circular 19, the flow and use of the RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company is regulated such that RMB capital may not be used for the issuance of RMB entrusted loans, the repayment of inter-enterprise loans or the repayment of banks loans that have been transferred to a third-party. Although SAFE Circular 19 allows RMB capital converted from foreign currency-denominated registered capital of a foreign-invested enterprise to be used for equity investments within China, it also reiterates the principle that RMB converted from the foreign currency-denominated capital of a foreign-invested company may not be directly or indirectly used for purposes beyond its business scope. Although SAFE promulgated in 2019 the Circular on Further Promoting the Cross-border Trade and Investment Facilitation, or SAFE Circular 28, pursuant to which non-investment foreign-invested companies are allowed to conduct domestic equity investment with settled capital from foreign exchange if such investment projects are true and compliant and do not otherwise violate the existing Special Management Measures (Negative List) for the Access of Foreign Investment, it is unclear whether SAFE will permit such capital to be used for equity investments in China in actual practice. SAFE promulgated the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or SAFE Circular 16, effective on June 9, 2016, which reiterates some of the rules set forth in SAFE Circular 19, but changes the prohibition against using RMB capital converted from foreign currency denominated registered capital of a foreign-invested company to issue RMB entrusted loans to a prohibition against using such capital to issue loans to non-associated enterprises. Violations of SAFE Circular 19 and SAFE Circular 16 could result in administrative penalties. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer any foreign currency we hold, including the net proceeds we received from our initial public offering in July 2020, to our PRC subsidiary, which may adversely affect our liquidity and our ability to fund and expand our business in China.

In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, or at all, with respect to future loans by us to our PRC subsidiary or with respect to future capital contributions by us to our PRC subsidiary. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds we received from our initial public offering and to capitalize or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident beneficial owners or our PRC subsidiary to liability or penalties, limit our ability to inject capital into our PRC subsidiary, limit our PRC subsidiary's ability to increase its registered capital or distribute profits to us, or may otherwise adversely affect us.

SAFE promulgated the Circular of the State Administration of Foreign Exchange on Issues Concerning the Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles, or SAFE Circular 37, in July 2014 that requires PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing with such PRC residents or entities' legally owned assets or equity interests in domestic enterprises or offshore assets or interests. On February 13, 2015, SAFE issued Circular on Further Simplifying and Improving the Foreign Currency Management Policy on Direct Investment, or SAFE Circular 13, effective on June 1, 2015, pursuant to which the power to accept SAFE registration was delegated from local SAFE to local qualified banks where the assets or interest in the domestic entity was located. In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions.

If our shareholders who are PRC residents or entities do not complete their registration with the local SAFE branches, our PRC subsidiary may be prohibited from distributing its profits and proceeds from any reduction in capital, share transfer or liquidation to us, and we may be restricted in our ability to contribute additional capital to our PRC subsidiary. Moreover, failure to comply with the SAFE registration described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

We have used our best efforts to notify PRC residents or entities who directly or indirectly hold shares in our Cayman Islands holding company and who are known to us as being PRC residents to complete the foreign exchange registrations. However, we may not at all times be fully aware or informed of the identities of all our shareholders or beneficial owners that are required to make or update such registration, and we cannot compel them to comply with SAFE registration requirements. As a result, we cannot assure you that all other shareholders or beneficial owners of ours who are PRC residents or entities have complied with, and will in the future make, obtain or update any applicable registrations or approvals required by SAFE regulations. Failure by such shareholders or beneficial owners to comply with SAFE regulations, or failure by us to amend the foreign exchange registrations of our PRC subsidiary, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our PRC subsidiary's ability to make distributions or pay dividends to us or affect our ownership structure, which could adversely affect our business and prospects.

Failure to comply with PRC regulations regarding the registration requirements for employee stock ownership plans or share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies, or SAFE Circular 7. Under SAFE Circular 7 and other relevant rules and regulations, PRC residents who participate in stock incentive plan in an overseas publicly-listed company are required to register with SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly listed company or another qualified institution selected by such PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of share-based awards, the purchase and sale of corresponding shares or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution, or any other material changes. We and our PRC employees who have been granted share-based awards have been subject to SAFE Circular 7 and other relevant rules and regulations as our company has become an overseas listed company since the completion of our initial public offering in July 2020. Although we have completed the SAFE registration for our 2019 Share Incentive Plan subject to SAFE Circular 7, any failure of our PRC share-based award holders to complete their SAFE registrations for any other stock incentive plan in the future may subject these PRC residents to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiary, limit our PRC subsidiary's ability to distribute dividends to us, or otherwise materially adversely affect our business.

If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or the ADSs holders.

Under the PRC Enterprise Income Tax Law, or the EIT Law, and its implementation rules, an enterprise established outside of the PRC with its “de facto management body” within the PRC is considered a “resident enterprise” and will be subject to PRC enterprise income tax on its global income at the rate of 25%. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control and overall management over the business, productions, personnel, accounts and properties of an enterprise. In 2009, the State Administration of Taxation, or SAT, issued the Circular of the State Administration of Taxation on Issues Relating to Identification of PRC-Controlled Overseas Registered Enterprises as Resident Enterprises in Accordance with the De Facto Standards of Organizational Management, or SAT Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, but not to those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the State Administration of Taxation’s general position on how the “de facto management body” test should be applied in determining the tax resident status of all offshore enterprises. According to SAT Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (1) the primary location of the day-to-day operational management is in the PRC; (2) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (3) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (4) at least 50% of voting board members or senior executives habitually reside in the PRC.

We believe none of our entities outside of China is a PRC resident enterprise for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.” If the PRC tax authorities determine that Quhuo Limited is a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises, including the holders of the ADSs. In addition, non-resident enterprise shareholders (including the ADSs holders) may be subject to PRC tax at a rate of 10% on gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is treated as sourced from within the PRC. Furthermore, if PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, dividends paid to our non-PRC individual shareholders (including the ADSs holders) and any gain realized on the transfer of ADSs or ordinary shares by such shareholders may be subject to PRC tax at a rate of 20% (which, in the case of dividends, may be withheld at source by us), if such gains are deemed to be from PRC sources. These rates may be reduced by an applicable tax treaty, but it is unclear whether non-PRC shareholders of Quhuo Limited would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that Quhuo Limited is treated as a PRC resident enterprise. Any such tax may reduce the returns on your investment in the ADSs.

We face uncertainties with respect to indirect transfer of equity interests in PRC resident enterprises by their non-PRC holding companies.

We face uncertainties regarding the reporting on and consequences of previous private equity financing transactions involving the transfer and exchange of shares in our company by non-resident investors. In February 2015, SAT issued the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises, or SAT Bulletin 7. Pursuant to SAT Bulletin 7, an “indirect transfer” of PRC assets, including a transfer of equity interests in an unlisted non-PRC holding company of a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of the underlying PRC assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. On October 17, 2017, SAT issued the Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source, or SAT Bulletin 37, which came into effect on December 1, 2017. SAT Bulletin 37 further clarifies the practice and procedure of the withholding of nonresident enterprise income tax.

There is uncertainty as to the application of SAT Bulletin 37 or previous rules under Bulletin 7. We face uncertainties on the reporting and consequences of private equity financing transactions, share exchanges or other transactions involving the transfer of shares in our company by investors that are non-PRC resident enterprises. Under SAT Bulletin 37 and SAT Bulletin 7, our company may be subject to filing obligations or taxes if our company is the transferor in such transactions, and may be subject to withholding obligations if our company is the transferee in such transactions.

Increases in labor costs in the PRC may adversely affect our business, financial condition and results of operations.

The PRC Labor Contract Law has reinforced the protection of employees who, under the PRC Labor Contract Law, have the right, among others, to have written employment contracts, to enter into employment contracts with no fixed term under certain circumstances, to receive overtime wages and to terminate or alter terms in labor contracts. Furthermore, the PRC Labor Contract Law sets forth additional restrictions and increases the costs involved with dismissing employees. To the extent that we need to significantly reduce our workforce, the PRC Labor Contract Law could adversely affect our ability to do so in a timely and cost-effective manner, and we could be subject to penalties or incur significant liabilities in connection with labor disputes or investigations.

In addition, we are required by PRC laws and regulations to make social insurance registration and open housing fund account with relevant governmental authorities and pay various statutory employee benefits, including pensions, housing fund, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. The relevant government agencies may examine whether an employer has made adequate payments of the requisite statutory employee benefits, and those employers who fail to make adequate payments may be subject to late payment fees, fines and/or other penalties. If we fail to make adequate social insurance and housing fund contributions, we may be subject to fines and legal sanctions, and our business, financial condition and results of operations may be adversely affected.

Risks Related to Our Corporate Structure

The PRC government may find that the contractual arrangements that establish our corporate structure for operating our business do not comply with applicable PRC laws and regulations.

Current PRC laws and regulations impose certain restrictions on foreign ownership of companies that engage in certain business operations, such as value-added telecommunications services. In June 2019, MOFCOM and the NDRC promulgated the Special Management Measures (Negative List) for the Access of Foreign Investment, or the Negative List (2019 version), which became effective on July 30, 2019, in order to amend the Guidance Catalogue of Industries for Foreign Investment. In December 2021, MOFCOM and the NDRC promulgated the Negative List (2021 version) which took effect on January 1, 2022. Pursuant to the Negative List (2021 version), foreign investment in value-added telecommunications services (except for e-commerce, domestic multiparty communication, store and forward service and call center) falls within the Negative List. As a result, foreign investors can only conduct investment activities through equity or contractual joint ventures with certain shareholding requirements and approvals from competent authorities. PRC partners are required to hold the majority interests in the joint ventures and approval from MOFCOM and the Ministry of Industry and Information Technology, or MIIT, for the incorporation of the joint ventures and the business operations.

Current PRC laws and regulations impose restrictions or prohibitions on foreign ownership and investment in companies that engage in value-added telecommunications services. We are an exempted company incorporated in the Cayman Islands and do not have any substantive business operations on our own. Beijing Quhuo Information Technology Co., Ltd., or WFOE, is our wholly-owned PRC subsidiary and a foreign-invested enterprise under PRC laws. We conduct our business in China through Beijing Quhuo Technology Co., Ltd., or the VIE, and its subsidiaries, or collectively the affiliated entities, in China, and may in the future commence or acquire businesses that are subject to the restrictions with respect to value-added telecommunications services. Through the VIE agreements, the shareholders of the VIE effectively assigned all of their voting rights underlying their respective equity interest in the VIE to us, which enabled us to direct the activities of the VIE that most significantly impact the VIE's economic performance, and we, through our WFOE, have the right to receive economic benefits from the VIE that could potentially be significant to the VIE and have the obligation to absorb losses of the VIE that could potentially be significant to the VIE. We have been and expect to continue to be dependent on the affiliated entities to operate our business in China. As a result of these contractual arrangements, we are considered the primary beneficiary of the VIE and consolidate the VIE as required by Topic 810, Consolidation of Accounting Standards Codification, or the ASC.

In the opinion of our PRC counsel, Commerce & Finance Law Offices, (1) the ownership structures of WFOE and the VIE in China currently do not result in any violation of the applicable PRC laws or regulations currently in effect; and (2) the contractual arrangements between WFOE, the VIE and its registered shareholders governed by PRC laws and regulations are currently valid and legally binding on each party thereto and enforceable in accordance with the terms thereof, subject, as to enforceability, to applicable bankruptcy, insolvency, moratorium, reorganization and similar laws affecting creditors' rights generally, the discretion of relevant governmental authorities in exercising their authority in connection with the interpretation and implementation thereof, and the application of relevant PRC laws and policies thereto, and to general equity principles. However, we have been further advised by our PRC counsel that there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations, and there can be no assurance that the PRC government authorities will not take a view contrary to or otherwise different from the opinion of our PRC counsel. If the PRC government otherwise find that we are in violation of any existing or future PRC laws or regulations or lack the necessary permits or licenses to operate our and the VIE's business, the relevant governmental authorities would have broad discretion in dealing with such violation, including, without limitation:

- revoking our and the VIE's business and operating licenses;
- discontinuing or restricting any related-party transactions between our group and the affiliated entities;
- imposing fines and penalties, confiscating the income from our company, or imposing additional requirements for our operations which we may not be able to comply with;
- requiring us to restructure our ownership structure or operations, including terminating the contractual arrangements and deregistering the equity pledges of the VIE, which in turn would affect our ability to consolidate, derive economic interests from, or direct the activities of the affiliated entities that most significantly impact their economic performance;
- restricting or prohibiting our use of the proceeds of our initial public offering in July 2020 to finance our business and operations in China, particularly the expansion of our business through strategic acquisitions; or
- restricting the use of financing sources by us or the affiliated entities or otherwise restricting our or their ability to conduct business.

Any of these events could cause significant disruption to our business operations and severely damage our reputation, which would in turn materially and adversely affect our business, financial condition and results of operations. If occurrences of any of these events results in our inability to direct the activities of the affiliated entities in China, and/or our failure to receive the economic benefits from the affiliated entities, we may not be able to consolidate their financial results in our consolidated financial statements in accordance with U.S. GAAP.

Any failure by the VIE or its shareholders to perform their obligations under our contractual arrangements with them would have a material adverse effect on our business.

We have relied and expect to continue to rely on the contractual arrangements with the VIE and its shareholders to operate our business in China. For a description of these contractual arrangements, see "Item 4. Information on the Company—C. Organizational Structure."

However, these contractual arrangements may not be as effective as direct ownership in providing us with control over the affiliated entities. Any of the affiliated entities, including the VIE and its shareholders, could breach their contractual arrangements with us by, among other things, failing to conduct their operations in an acceptable manner or taking other actions that are detrimental to our interests. For example, the VIE may fail to pass the annual inspection of the ICP license, which would negatively impact our business operations. In the event that the shareholders of the VIE breach the terms of these contractual arrangements and voluntarily liquidate the VIE, or the VIE declares bankruptcy and all or part of its assets become subject to liens or rights of third-party creditors, or are otherwise disposed of without our consent, we may be unable to conduct some or all of our business operations or otherwise benefit from the assets held by the affiliated entities, which could have a material adverse effect on our business, financial condition and results of operations. Furthermore, if the VIE undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors may claim rights to some or all of the assets of the VIE, thereby hindering our ability to operate our business as well as constrain our growth.

Furthermore, we are a holding company incorporated in the Cayman Islands. As a holding company with no material operations of our own, we conduct substantially all of our operations through the affiliated entities. We receive the economic benefits of the affiliated entities' business operations through certain contractual arrangements. The ADSs listed on the Nasdaq Stock Market represents shares of our offshore holding company instead of shares of the VIE or its subsidiaries in China. We may not be able to continue to satisfy the applicable requirements and rules with respect to such structure. If we are unable to satisfy the Nasdaq Stock Market criteria for maintaining our listing, our securities could be subject to delisting.

If the VIE or its shareholders fail to perform their respective obligations under the contractual arrangements, we may have to incur substantial costs and expend additional resources to enforce such arrangements. We may also have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and contractual remedies, which we cannot assure you will be sufficient or effective under PRC law. Our contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in China. Accordingly, these agreements would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal system in the PRC is not as developed as in some other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a consolidated variable interest entity should be interpreted or enforced under PRC law. There remain significant uncertainties regarding the ultimate outcome of such arbitration should legal action become necessary. In addition, under PRC law, rulings by arbitrators are final, parties cannot appeal the arbitration results in courts, and if the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay. In the event that we are unable to enforce these contractual arrangements, or if we suffer significant delay or other obstacles in the process of enforcing these contractual arrangements, we may not be able to direct the activities of the affiliated entities that most significantly impact their economic performance, and our ability to conduct our business may be negatively affected. See “—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system could adversely affect us.”

The shareholders of the VIE may have actual or potential conflicts of interest with us, which may materially and adversely affect our business, financial condition and results of operations.

The shareholders of the VIE may have actual or potential conflicts of interest with us. These shareholders may breach, or cause the VIE to breach, or refuse to renew, the existing contractual arrangements we have with them and the VIE, which would have a material adverse effect on our ability to direct the activities of the affiliated entities that most significantly impact their economic performance and receive economic benefits from them. For example, the shareholders may be able to cause our agreements with the VIE to be performed in a manner adverse to us by, among other things, failing to remit payments due under the contractual arrangements to us on a timely basis. We cannot assure you that when conflicts of interest arise any or all of these shareholders will act in the best interests of our company or such conflicts will be resolved in our favor. Currently, we do not have any arrangements to address potential conflicts of interest between these shareholders and our company. If we cannot resolve any conflict of interest or dispute between us and these shareholders, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainties as to the outcome of any such legal proceedings.

Our contractual arrangements may be subject to scrutiny by the PRC tax authorities and they may determine that we or the affiliated entities owe additional taxes, which could materially and adversely affect our business, financial condition and results of operations.

Under applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. The tax authorities may impose reasonable adjustments on taxation if they have identified any related party transactions that are inconsistent with arm's length principles. We could face material and adverse tax consequences if the PRC tax authorities determine that our contractual arrangements were not entered into on an arm's length basis in such a way as to result in an impermissible reduction in taxes under applicable PRC laws, rules and regulations, and adjust income of the affiliated entities in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction of expense deductions recorded by the affiliated entities for PRC tax purposes, which could in turn increase its tax liabilities without reducing our PRC subsidiary's tax expenses. In addition, if WFOE requests the shareholders of the affiliated entities to transfer their equity interests at nominal or no value pursuant to the contractual arrangements, such transfer could be viewed as a gift and subject WFOE to PRC income tax. Furthermore, the PRC tax authorities may impose late payment fees and other penalties on the affiliated entities for the adjusted but unpaid taxes according to the applicable regulations. Our financial position could be materially and adversely affected if the affiliated entities' tax liabilities increase or if they are required to pay late payment fees and other penalties.

Uncertainties exist with respect to the interpretation and implementation of the newly enacted Foreign Enterprise Investment Law and how it may impact the viability of our current corporate structure, corporate governance, business, financial condition, results of operations and prospects.

On March 15, 2019, the National People's Congress promulgated the Foreign Investment Law, which came into effect on January 1, 2020 and replaced the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. The current Foreign Investment Law does not mention concepts such as "actual control" and "controlling PRC companies by contracts or trusts" that were included in the previous drafts, nor does it specify regulations on controlling through contractual arrangements. As a result, this regulatory topic remains unclear under the Foreign Investment Law. However, since the Foreign Investment Law is relatively new, uncertainties still exist in relation to its interpretation and implementation, and failure to take timely and appropriate measures to cope with the regulatory-compliance challenges could result in a material adverse effect on us. For instance, though the Foreign Investment Law does not explicitly classify contractual arrangements as a form of foreign investment, it contains a catch-all provision under the definition of "foreign investment," which includes investments made by foreign investors in China through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a form of foreign investment, at which time it will be uncertain whether our contractual arrangements will be deemed to be in violation of the market access requirements for foreign investment in the PRC and if yes, how our contractual arrangements should be dealt with. In addition, if future laws, administrative regulations or provisions prescribed by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. In the worst-case scenario, we may be required to unwind our existing contractual arrangements and/or dispose of the relevant business operations, which could have a material adverse effect on our current corporate structure, corporate governance, business, financial condition, results of operations and prospects.

We may rely on dividends paid by our PRC subsidiary to fund cash and financing requirements. Any limitation on the ability of our PRC subsidiary to pay dividends to us could have a material adverse effect on our ability to conduct our business and to pay dividends to holders of the ADSs and our ordinary shares.

We are a holding company, and we may rely on dividends to be paid by our PRC subsidiary for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to the holders of the ADSs and our ordinary shares and service any debt we may incur. If our PRC subsidiary incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us.

Under PRC laws and regulations, wholly foreign-owned enterprises in the PRC, such as WFOE, may pay dividends only out of their accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its after-tax profits each year, after making up previous years' accumulated losses, if any, to fund certain statutory reserve funds, until the aggregate amount of such a fund reaches 50% of its registered capital. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends. Any limitation on the ability of our wholly-owned PRC subsidiary to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

Risks Related to Our Corporate Governance

As an exempted company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices for corporate governance matters that differ significantly from the Nasdaq corporate governance listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with the corporate governance listing standards.

The ADSs are listed on Nasdaq. The Nasdaq corporate governance listing standards permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the Nasdaq corporate governance listing standards. We have relied on and plan to continue to rely on home country practice with respect to our corporate governance. For example, we do not have a majority of independent directors serving on our board of directors. We have also elected to not have our compensation committee and nominating and corporate governance committee consist of entirely independent directors. See “Item 6. Directors, Senior Management and Employees—C. Board Practices” for details. As a result, our shareholders may be afforded less protection than they otherwise would enjoy under the Nasdaq rules applicable to U.S. domestic issuers.

We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to U.S. domestic public companies.

Because we are a foreign private issuer under the Exchange Act, we are exempt from certain provisions of the securities rules and regulations in the United States that are applicable to U.S. domestic issuers, including:

- the rules under the Exchange Act requiring the filing of quarterly reports on Form 10-Q or current reports on Form 8-K with the SEC;
- the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and
- the selective disclosure rules by issuers of material nonpublic information under Regulation FD.

We are required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we intend to publish our results on a quarterly basis through press releases, distributed pursuant to the rules and regulations of Nasdaq. Press releases relating to financial results and material events will also be furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC will be less extensive and less timely than that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information that would be made available to you were you investing in a U.S. domestic issuer.

We are an emerging growth company within the meaning of the Securities Act and may take advantage of certain reduced reporting requirements.

We are an “emerging growth company,” as defined in the JOBS Act, and we may take advantage of certain exemptions from requirements applicable to other public companies that are not emerging growth companies including, most significantly, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002 for so long as we remain an emerging growth company.

The JOBS Act also provides that an emerging growth company does not need to comply with any new or revised financial accounting standards until such date that a private company is otherwise required to comply with such new or revised accounting standards. This election allows us to delay the adoption of new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies, and as a result of this election, our financial statements may not be comparable to those of companies that comply with public company effective dates, including other emerging growth companies that have not made this election.

We have incurred, and may continue to incur, increased costs as a result of being a public company, particularly after we cease to qualify as an “emerging growth company.”

We incur significant legal, accounting and other expenses as a result of being a public company. The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and Nasdaq, impose various requirements on the corporate governance practices of public companies. We expect these rules and regulations to increase our legal and financial compliance costs and to make some corporate activities more time-consuming and costly. As a company with less than US\$1.235 billion in revenues for our last fiscal year, we qualify as an “emerging growth company” pursuant to the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. After we are no longer an “emerging growth company,” we expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and the other rules and regulations of the SEC.

As a result of becoming a public company, we have increased the number of independent directors and adopt policies regarding internal controls and disclosure controls and procedures. Operating as a public company has also made it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. In addition, we incur additional costs associated with our public company reporting requirements. It may also be more difficult for us to find qualified persons to serve on our board of directors or as executive officers. We are currently evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate with any degree of certainty the amount of additional costs we may incur or the timing of such costs.

In the past, shareholders of a public company often brought securities class action suits against the company following periods of instability in the market price of that company’s securities. If we were involved in a class action suit, it could divert a significant amount of our management’s attention and other resources from our business and operations, which could harm our results of operations and require us to incur significant expenses to defend the suit. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

In addition, as an emerging growth company, we will still incur expenses in relation to management assessment according to requirements of Section 404(a) of the Sarbanes-Oxley Act of 2002. After we are no longer an “emerging growth company,” we expect to incur additional significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404(b) of the Sarbanes-Oxley Act of 2002 and the other rules and regulations of the SEC.

We are a “controlled company” as defined under the Nasdaq Stock Market Rules. As a result, we are qualified for, and can rely on, exemptions from certain corporate governance requirements that would otherwise provide protection to shareholder of other companies.

We are a “controlled company” as defined under the Nasdaq Stock Market Rules as Mr. Leslie Yu, our chairman and chief executive officer, holds a majority of the aggregate voting power of our company. For so long as we remain a controlled company, we may rely on certain exemptions from the corporate governance rules, including the rule that we have to establish a nominating and corporate governance committee composed entirely of independent directors. As a result, you will not have the same protection afforded to shareholders of companies that are subject to these corporate governance requirements. Even if we cease to be a controlled company, we may still rely on exemptions available to foreign private issuers, including being able to adopt home country practices in relation to corporate governance matters. See “—As an exempted company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices for corporate governance matters that differ significantly from the Nasdaq corporate governance listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with the corporate governance listing standards” and “—We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to U.S. domestic public companies.”

Our dual-class voting structure will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.

Our authorized and issued ordinary shares are divided into Class A ordinary shares and Class B ordinary shares (with certain shares remaining undesignated, with power for our directors to designate and issue such classes of shares as they think fit), and the ADSs represent Class A ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to 15 votes per share. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.

Mr. Leslie Yu, our chairman and chief executive officer, has control over us and our corporate matter. As of April 10, 2023, Mr. Yu beneficially owned all of our issued Class B ordinary shares. These Class B ordinary shares constitute approximately 10.2% of our total issued and outstanding share capital and 63.0% of the aggregate voting power of our total issued and outstanding share capital due to the disparate voting powers associated with our dual-class share structure. See “Item 6. Directors, Senior Management and Employees—E. Share Ownership.” As a result of the dual-class share structure and the concentration of ownership, Mr. Yu has considerable influence over matters such as decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could have the effect of depriving our other shareholders of the opportunity to receive a premium for their shares as part of a sale of our company and may reduce the price of the ADSs. This concentrated control will limit your ability to influence corporate matters and could discourage others from pursuing any potential merger, takeover or other change of control transactions that holders of Class A ordinary shares and ADSs may view as beneficial.

The dual-class structure of our ordinary shares may adversely affect the trading market for the ADSs.

Certain shareholder advisory firms have announced changes to their eligibility criteria for inclusion of shares of public companies on certain indices, including the S&P 500, to exclude companies with multiple classes of shares and companies whose public shareholders hold no more than 5% of total voting power from being added to such indices. In addition, several shareholder advisory firms have announced their opposition to the use of multiple class structures. As a result, the dual class structure of our ordinary shares may prevent the inclusion of the ADSs representing Class A ordinary shares in such indices and may cause shareholder advisory firms to publish negative commentary about our corporate governance practices or otherwise seek to cause us to change our capital structure. Any such exclusion from indices could result in a less active trading market for the ADSs. Any actions or publications by shareholder advisory firms critical of our corporate governance practices or capital structure could also adversely affect the value of the ADSs.

Our memorandum and articles of association contain anti-takeover provisions that could have a material adverse effect on the rights of holders of our ordinary shares and the ADSs.

Our memorandum and articles of association contain provisions which could limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. Our board of directors has the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix their designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our ordinary shares, in the form of ADS or otherwise. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preferred shares, the price of the ADSs may fall and the voting and other rights of the holders of our ordinary shares and ADSs may be materially and adversely affected. However, under Cayman Islands law, our board of directors may only exercise the rights and powers granted to them under our memorandum and articles of association for a proper purpose and for what they believe in good faith to be in the interest of our company.

Risks Related to the ADSs

The trading price of the ADSs is likely to be volatile, which could result in substantial losses to investors.

The trading price of the ADSs is likely to be volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, like the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in the United States. A number of Chinese companies have listed or are in the process of listing their securities on U.S. stock markets. The securities of some of these companies have experienced significant volatility, including price declines in connection with their initial public offerings. The trading performances of these Chinese companies' securities after their offerings may affect the attitudes of investors toward Chinese companies listed in the United States in general and consequently may impact the trading performance of the ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have conducted any inappropriate activities. Furthermore, securities markets may from time to time experience significant price and volume fluctuations that are not related to our operating performance, which may have a material and adverse effect on the trading price of the ADSs.

In addition to market and industry factors, the price and trading volume for the ADSs may be highly volatile for factors specific to our own operations, including the following:

- variations in our revenues, earnings and cash flow;
- announcements of new investments, acquisitions, strategic partnerships or joint ventures by us or our competitors;
- announcements of new services and expansions by us or our competitors;
- announcements of new policies, rules or regulations relating to the internet or the consumer services industry in China;
- changes in financial estimates by securities analysts;
- detrimental adverse publicity about us, our services, our competitors or our industry;
- additions or departures of key personnel;
- fluctuations of exchange rates between the Renminbi and the U.S. dollar;
- release of lock-up or other transfer restrictions on our outstanding equity securities or sales of additional equity securities;
- and

- potential litigation or regulatory investigations.

Any of these factors may result in large and sudden changes in the volume and price at which the ADSs will trade.

In the past, shareholders of public companies have often brought securities class action suits against those companies following periods of instability in the market price of their securities. If we were involved in a class action suit, it could divert a significant amount of our management's attention and other resources from our business and operations and require us to incur significant expenses to defend the suit, which could harm our results of operations. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

If we do not satisfy the requirements for continued listing on Nasdaq Stock Market, the ADSs could be suspended or delisted from Nasdaq.

The ADSs are currently listed on the Nasdaq Global Market. The Nasdaq Listing Rules has minimum requirements that a company must meet for continued listing on the Nasdaq Global Market.

On March 1, 2022, we received a notice from Nasdaq that we had failed to comply with the minimum closing bid price requirement set forth in Rule 5450(a)(1) of the Nasdaq Listing Rules. On August 29, 2022, we received a notification letter from the Listing Qualifications Department of the Nasdaq Stock Market, informing us that we had regained compliance with the Nasdaq Listing Rule 5450(a)(1), since the closing bid price of the ADSs had been at \$1.00 per ADS or greater for 10 consecutive business days from August 12 through August 26, 2022. In addition, on May 18, 2022, we received a notification letter from Nasdaq that we failed to comply with Rule 5250(c)(1) of the Nasdaq Listing Rules since we had not yet filed our annual report on Form 20-F for the fiscal year ended December 31, 2021. The delay in filing our annual report for the fiscal year ended December 31, 2021 resulted from our failure to compile all the information necessary to complete our annual financial statements. After we submitted a plan to regain compliance, Nasdaq ultimately granted us an extension until November 14, 2022 to file our annual report on Form 20-F for the fiscal year ended December 31, 2021 and thereby regain compliance with Rule 5250(c)(1) of the Nasdaq Listing Rules. We filed our annual report on Form 20-F for the fiscal year ended December 31, 2021 on September 9, 2022.

We cannot assure you that we will be able to continue to meet the financial and corporate governance requirements to qualify for continued listing, including the minimum bid price requirement of at least US\$1.00 per ADS pursuant to Rule 5450(a)(1) of the Nasdaq Listing Rules and the requirement to timely file all required periodic financial reports with the SEC pursuant to Rule 5250(c)(1) of the Nasdaq Listing Rules.

The issuance and sale of any securities in the future may be dilutive to our existing shareholders and may cause the price of the ADSs to decline. The issuance of additional shares by us that has the effect of reducing the price of the trading price of ADSs may also prevent us from being able to maintain compliance with the minimum bid price requirement of Nasdaq Listing Rule 5450(a)(1), which may result in the ADSs being suspended or delisted from the Nasdaq Global Market. If a suspension or delisting of the ADSs were to occur, there would be significantly less liquidity in the suspended or delisted ADSs. In addition, our ability to raise additional capital through equity or debt financing would be greatly impaired.

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

The trading market for the ADSs will be influenced by research or reports that industry or securities analysts publish about our business. If one or more analysts who cover us downgrade the ADSs, the market price for the ADSs would likely decline. If one or more of these analysts cease to cover us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the market price or trading volume for the ADSs to decline.

The sale or availability for sale of substantial amounts of the ADSs could adversely affect their market price.

Sales of substantial amounts of the ADSs in the public market, or the perception that these sales could occur, could adversely affect the market price of the ADSs and could materially impair our ability to raise capital through equity offerings in the future. We had 55,379,583 Class A ordinary shares and 6,296,630 Class B ordinary shares outstanding as of April 10, 2023, including 18,430,669 Class A ordinary shares represented by ADSs.

All of the ADSs are freely tradable without restriction or further registration under the Securities Act of 1933, as amended, or the Securities Act. The lockup agreement that our directors and executive officers and all of our pre-IPO shareholders signed with the underwriters of our initial public offering has expired, and these shareholders, and the remaining Class A ordinary shares are available for sale subject to volume and other restrictions under Rule 144 and Rule 701 under the Securities Act. To date, the trading volume of the ADSs on the Nasdaq Global Market has been low and, therefore, sales of even relatively small amounts of the ADSs in the public market could adversely affect the market price of the ADSs. We cannot predict what effect, if any, market sales of securities held by our significant shareholders or any other shareholder or the availability of these securities for future sale will have on the market price of the ADSs.

Because we do not expect to pay dividends in the foreseeable future, you must rely on price appreciation of the ADSs for return on your investment.

We currently intend to retain most, if not all, of our available funds and any future earnings to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. Therefore, you should not rely on an investment in the ADSs as a source for any future dividend income.

Our board of directors has complete discretion as to whether to distribute dividends, subject to certain restrictions under Cayman Islands law, namely that our company may only pay dividends out of profits or share premium account, and provided always that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in the ADSs will likely depend entirely upon any future price appreciation of the ADSs. There is no guarantee that the ADSs will appreciate in value or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in the ADSs or even lose your entire investment in the ADSs.

You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts may be limited, because we are incorporated under Cayman Islands law and conduct our operations primarily in China.

We are an exempted company incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our memorandum and articles of association, the Companies Act (As Revised) of the Cayman Islands, as amended from time to time, and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

Shareholders of Cayman Islands exempted companies like us have no general rights under Cayman Islands law to inspect corporate records (other than the memorandum and articles of associations, our register of mortgages and charges and special resolutions of our shareholders) or to obtain copies of lists of shareholders of these companies. Our directors have discretion under our articles of association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obligated to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

Certain corporate governance practices in the Cayman Islands, which is our home country, differ significantly from requirements for companies incorporated in other jurisdictions such as the United States. If we choose to follow home country practice, our shareholders may be afforded less protection than they otherwise would under rules and regulations applicable to U.S. domestic issuers.

In addition, we conduct substantially all of our business operations in China, and substantially all of our directors and senior management are based in China, which is an emerging market. The SEC, U.S. Department of Justice and other authorities often have substantial difficulties in bringing and enforcing actions against non-U.S. companies and non-U.S. persons, including company directors and officers, in certain emerging markets, including China. Additionally, our public shareholders may have limited rights and few practical remedies in emerging markets where we operate, as shareholder claims that are common in the United States, including class action securities law and fraud claims, generally are difficult to pursue as a matter of law or practicality in many emerging markets, including China. For example, in China, there are significant legal and other obstacles to obtaining information needed for shareholder investigations or litigation outside China or otherwise with respect to foreign entities. Although the local authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, the regulatory cooperation with the securities regulatory authorities in the United States has not been efficient in the absence of a mutual and practical cooperation mechanism. According to Article 177 of the PRC Securities Law which became effective in March 2020, no foreign securities regulator is allowed to directly conduct investigation or evidence collection activities within the territory of the PRC. Accordingly, without the consent of the competent PRC securities regulators and relevant authorities, no organization or individual may provide the documents and materials relating to securities business activities to foreign securities regulators.

As a result of the foregoing, our public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as public shareholders of a company incorporated in the United States.

Certain judgments obtained against us by our shareholders may not be enforceable.

We are a Cayman Islands exempted company and all of our assets are located outside of the United States. All of our current operations are conducted in China. In addition, most of our current directors and officers are nationals and residents of countries other than the United States. All or a substantial portion of the assets of these persons are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under the U.S. federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against us, our assets, our directors and officers or their assets.

The voting rights of holders of ADSs are limited by the terms of the deposit agreement, and you may not be able to exercise your right to vote your Class A ordinary shares.

As a holder of the ADSs, you will only be able to exercise the voting rights with respect to the underlying Class A ordinary shares represented by your ADSs in accordance with the provisions of the deposit agreement. Under the deposit agreement, you must vote by giving voting instructions to the depositary. Upon receipt of your voting instructions, the depositary will vote the underlying Class A ordinary shares represented by your ADSs in accordance with these instructions. You will not be able to directly exercise your right to vote with respect to the underlying Class A ordinary shares represented by your ADSs unless you withdraw such shares. Under our amended and restated memorandum and articles of association, the minimum notice period required for convening a general meeting is ten calendar days. When a general meeting is convened, you may not receive sufficient advance notice to withdraw the underlying Class A ordinary shares represented by your ADSs to allow you to vote with respect to any specific matter. If we ask for your instructions, the depositary will notify you of the upcoming vote and will arrange to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your shares. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out your voting instructions. This means that you may not be able to exercise your right to vote and you may have no legal remedy if the underlying Class A ordinary shares represented by your ADSs are not voted as you requested.

You may not receive cash dividends if the depositary decides it is impractical to make them available to you.

The depositary of the ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our ordinary shares or other deposited securities underlying the ADSs, after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depositary may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of the ADSs. For example, the depositary may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may decide not to distribute such property to you.

We and the depository are entitled to amend the deposit agreement and to change the rights of ADSs holders under the terms of such agreement, and we may terminate the deposit agreement, without the prior consent of the ADSs holders.

We and the depository are entitled to amend the deposit agreement and to change the rights of the ADSs holders under the terms of such agreement, without the prior consent of the ADSs holders. We and the depository may agree to amend the deposit agreement in any way we decide is necessary or advantageous to us. Amendments may reflect, among other things, operational changes in the ADS program, legal developments affecting ADSs or changes in the terms of our business relationship with the depository. In the event that the terms of an amendment are disadvantageous to ADSs holders, ADSs holders will only receive 30 days' advance notice of the amendment, and no prior consent of the ADSs holders is required under the deposit agreement. Furthermore, we may decide to terminate the ADS facility at any time for any reason. For example, terminations may occur when we decide to list our shares on a non-U.S. securities exchange and determine not to continue to sponsor an ADS facility or when we become the subject of a takeover or a going-private transaction. If the ADS facility will terminate, ADSs holders will receive at least 90 days' prior notice, but no prior consent is required from them. Under the circumstances that we decide to make an amendment to the deposit agreement that is disadvantageous to ADSs holders or terminate the deposit agreement, the ADSs holders may choose to sell their ADSs or surrender their ADSs and become direct holders of the underlying Class A ordinary shares, but will have no right to any compensation whatsoever.

You may experience dilution of your holdings due to inability to participate in rights offerings.

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. Under the deposit agreement, the depository will not distribute rights to holders of ADSs unless the distribution and sale of rights and the securities to which these rights relate are either exempt from registration under the Securities Act with respect to all holders of ADSs or are registered under the provisions of the Securities Act. The depository may, but is not required to, attempt to sell these undistributed rights to third parties, and may allow the rights to lapse. We may be unable to establish an exemption from registration under the Securities Act, and we are under no obligation to file a registration statement with respect to these rights or underlying securities or to endeavor to have a registration statement declared effective. Accordingly, holders of ADSs may be unable to participate in our rights offerings and may experience dilution of their holdings as a result.

You may be subject to limitations on transfer of your ADSs.

Your ADSs are transferable on the books of the depository. However, the depository may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depository may close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depository needs to maintain an exact number of ADSs holders on its books for a specified period. The depository may also close its books in emergencies, and on weekends and public holidays. The depository may refuse to deliver, transfer or register transfers of the ADSs generally when our share register or the books of the depository are closed, or at any time if we or the depository thinks it is advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

Your rights to pursue claims against the depository as a holder of ADSs are limited by the terms of the deposit agreement.

As a holder of the ADSs, you are a party to the deposit agreement under which the ADSs are issued. Under the deposit agreement, any action or proceeding against or involving the depository arising out of or based upon the deposit agreement or the transactions contemplated thereby or by virtue of you owning the ADSs (including any such action or proceeding that may arise under the U.S. federal securities laws) may only be instituted in a state or federal court in New York, New York. In addition, under the deposit agreement, you, as a holder of the ADSs, will have irrevocably waived any objection which you may have to the laying of venue of any such proceeding and irrevocably submitted to the exclusive jurisdiction of such courts in any such action or proceeding. Such exclusive jurisdiction may, among other things, discourage lawsuits against or involving us or the depository, lead to increased costs to bring a claim or limit your ability to bring a claim in a judicial forum you find favorable.

In addition, the depositary may, in its sole discretion, require that any claim or dispute arising from the relationship created by the deposit agreement, including any claims under the U.S. federal securities laws and claims not in connection with our initial public offering in July 2020, be referred to and finally settled by an arbitration conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association. As arbitration provisions in commercial agreements have generally been respected by federal courts and state courts of New York, we believe that the arbitration provisions in the deposit agreement are enforceable under federal law and the laws of the State of New York. If the depositary elects to have any claim or dispute arising under the deposit agreement be referred to and finally settled by an arbitration, this could result in increased costs to bring a claim, limited access to information and other imbalances of resources between you as ADS holders and us, and could place limits on the ability of you as ADS holders to bring a claim in an arbitration forum that you may find favorable. Furthermore, we may amend or terminate the deposit agreement without your consent. If you continue to hold your ADSs after an amendment to the deposit agreement, you agree to be bound by the terms and subject to the conditions of the deposit agreement as amended.

ADSs holders may not be entitled to a jury trial with respect to claims arising under the deposit agreement, which could result in less favorable outcomes to the plaintiff(s) in any such action.

The deposit agreement governing the ADSs representing our Class A ordinary shares provides that, to the fullest extent permitted by law, ADSs holders waive the right to a jury trial of any claim they may have against us or the depositary arising out of or relating to our shares, the ADSs or the deposit agreement, including any claim under the U.S. federal securities laws.

If we or the depositary opposed a jury trial demand based on the waiver, the court would determine whether the waiver was enforceable based on the facts and circumstances of that case in accordance with the applicable state and federal law. To our knowledge, the enforceability of a contractual pre-dispute jury trial waiver in connection with claims arising under the federal securities laws has not been finally adjudicated by the United States Supreme Court. However, we believe that a contractual pre-dispute jury trial waiver provision is generally enforceable, including under the laws of the State of New York, which govern the deposit agreement, by a federal or state court in the City of New York, which has non-exclusive jurisdiction over matters arising under the deposit agreement. In determining whether to enforce a contractual pre-dispute jury trial waiver provision, courts will generally consider whether a party knowingly, intelligently and voluntarily waived the right to a jury trial. We believe that this is the case with respect to the deposit agreement and the ADSs. It is advisable that you consult legal counsel regarding the jury waiver provision before entering into the deposit agreement.

If you or any other holders or beneficial owners of ADSs bring a claim against us or the depositary in connection with matters arising under the deposit agreement or the ADSs, including claims under federal securities laws, you or such other holder or beneficial owner may not be entitled to a jury trial with respect to such claims, which may, among other things, limit and discourage lawsuits against us and/or the depositary and lead to limited access to information and other imbalances of resources between you as ADS holders and us. If a lawsuit is brought against us and/or the depositary under the deposit agreement, it may be heard only by a judge or justice of the applicable trial court, which would be conducted according to different civil procedures and may result in different outcomes than a trial by jury would have had, including results that could be less favorable to the plaintiff(s) in any such action.

Nevertheless, if this jury trial waiver provision is not permitted by applicable law, an action could proceed under the terms of the deposit agreement with a jury trial. No condition, stipulation or provision of the deposit agreement or ADSs serves as a waiver by any holder or beneficial owner of ADSs or by us or the depositary of compliance with any provision of the U.S. federal securities laws and the rules and regulations promulgated thereunder.

We may be a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. investors owning the ADSs or our ordinary shares.

A non-U.S. corporation, such as our company, will be considered a passive foreign investment company, or PFIC, for any taxable year if either (1) at least 75% of its gross income is passive income or (2) at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income. Although the law in this regard is not entirely clear, we treat the VIE (and its subsidiaries) as being owned by us for U.S. federal income tax purposes because we direct its activities that most significantly impact its economic performance and are entitled to substantially all of the economic benefits associated with it. As a result, we consolidate its results of operations in our consolidated U.S. GAAP financial statements. If it were determined, however, that we are not the owner of the VIE (and its subsidiaries) for U.S. federal income tax purposes, we would likely be treated as a PFIC for the current taxable year and any subsequent taxable year.

Assuming that we are the owner of the VIE (and its subsidiaries) for U.S. federal income tax purposes, and based upon our current and projected income and assets and projections as to the value of our assets, we believe it is reasonable to take the position that we were not classified as a PFIC for the taxable year ended December 31, 2022. However, no assurance can be given in this regard because the determination of whether we have been or will be or become a PFIC is a factual determination made annually that depends, in part, upon the composition of our income and assets and the characterization of such income or assets as active or passive. The IRS may challenge our determination in this regard. Fluctuations in the market price of the ADSs may cause us to be classified as a PFIC for the current or future taxable years because the value of our assets for purposes of the asset test, including the value of our goodwill and unbooked intangibles, may be determined by reference to the market price of the ADSs from time to time (which has been and may continue to be volatile). Our market capitalization has fluctuated significantly during the fiscal year ended December 31, 2022. If our market capitalization does not increase or continues to decline, we could be or become classified as a PFIC for the current taxable year or future taxable years. Under circumstances where our revenue from activities that produce passive income significantly increases relative to our revenue from activities that produce non-passive income, or where we determine not to deploy significant amounts of cash for active purposes, our risk of becoming classified as a PFIC may substantially increase.

If we are a PFIC for any tax year during which a U.S. Holder (as defined in “Item 10. Additional Information—E. Taxation—U.S. Federal Income Taxation—General”) holds an ADS or a Class A ordinary share, certain adverse U.S. federal income tax consequences could apply to the U.S. Holder. See “Item 10. Additional Information—E. Taxation—U.S. Federal Income Taxation—Passive foreign investment company considerations.”

ITEM 4. INFORMATION ON THE COMPANY

A. History and development of the company

We are an exempted company with limited liability incorporated in the Cayman Islands in June 2019 and a holding company of our group. We commenced operations through Beijing Quhuo Technology Co., Ltd., or Beijing Quhuo, in 2012.

In June 2019, our founders, through their respective controlled entities, incorporated Quhuo Limited in the Cayman Islands as our listing entity and holding company with no material operations of its own.

From June 2019 to July 2019, we incorporated various subsidiaries, including Quhuo Investment Limited, Quhuo Technology Investment (Hong Kong) Limited and Beijing Quhuo Information Technology Co., Ltd., or WFOE, all of which are investment holding companies. In August 2019, we gained control and became the sole beneficiary of Beijing Quhuo, or the VIE, through a series of contractual arrangements between WFOE, the VIE and the VIE’s registered shareholders.

In August 2019, Quhuo Limited issued preferred shares to the VIE’s existing investors to reflect their respective equity interests in the VIE prior to the restructuring.

In July 2020, we completed an initial public offering of 3,788,100 ADSs, raising approximately US\$32.5 million in net proceeds after deducting underwriting commissions and the offering expenses payable by us.

In November 2020, we acquired a 54.22% equity interest in Lilai Information Technology (Shenzhen) Co., Ltd., or Lilai, an on-demand workforce platform that specializes in housekeeping solutions for hotels and B&Bs, for a consideration in the form of cash and our company’s securities, in which the cash consideration had been paid. In January 2022, we acquired the remaining 45.78% equity interest in Lilai for a consideration in the form of our company’s securities. We have issued the consideration securities for the acquisition.

Effective on August 12, 2022, we changed the ratio of the ADSs to Class A ordinary shares from the then ADS ratio of one ADS to one Class A ordinary share to a new ADS ratio of one ADS representing ten Class A ordinary shares.

Our principal executive offices are located at 3rd Floor, Block A, Tonghui Building, No. 1132 Huihe South Street, Chaoyang District, Beijing, People’s Republic of China. Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The telephone number of our principal executive office is (+86-10) 5923 6208. Investors should contact us for any inquiries through the address and telephone number of our principal executive office. Our main website is www.quhuo.cn. The information contained on our website is not a part of this annual report. Our agent for service of process in the United States is Cogency Global Inc., located at 122 East 42nd Street, 18th Floor, New York, New York 10168.

The SEC maintains an Internet site, <http://www.sec.gov>, which contains reports, proxy and information statements, and other information regarding us. We also maintain an Internet site, <http://ir.quhuo.cn/>, for investors' information.

Nasdaq Listing Standards Compliance

On March 1, 2022, we received a notice from Nasdaq that we had failed to comply with the minimum closing bid price requirement set forth in Rule 5450(a)(1) of the Nasdaq Listing Rules. The Nasdaq notification letter did not result in the immediate delisting of our securities. Pursuant to Rule 5810(c)(3)(A) of the Nasdaq Listing Rules, we had a compliance period of 180 calendar days, or until August 29, 2022, to regain compliance with Nasdaq's minimum bid price requirement. On August 29, 2022, we received a notification letter from the Listing Qualifications Department of the Nasdaq Stock Market, informing us that we had regained compliance with the Nasdaq Listing Rule 5450(a)(1), since the closing bid price of the ADSs had been at \$1.00 per ADS or greater for 10 consecutive business days from August 12 through August 26, 2022.

On May 18, 2022, we received a notification letter from Nasdaq that we failed to comply with Rule 5250(c)(1) of the Nasdaq Listing Rules since we had not yet filed our annual report on Form 20-F for the fiscal year ended December 31, 2021. The delay in filing our annual report for the fiscal year ended December 31, 2021 resulted from our failure to compile all the information necessary to complete our annual financial statements. After we submitted a plan to regain compliance, Nasdaq granted us an extension until November 14, 2022 to file our annual report on Form 20-F for the fiscal year ended December 31, 2021 and thereby regain compliance with Rule 5250(c)(1) of the Nasdaq Listing Rules. We filed our annual report on Form 20-F for the fiscal year ended December 31, 2021 on September 9, 2022.

B. Business Overview

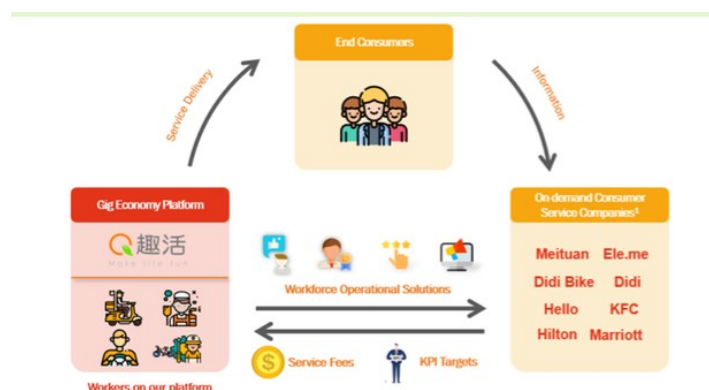
We are a leading gig economy platform focusing on community-centered services in China. We operate a platform of large, flexible and standardized workforce. As of December 31, 2022, we had 540,000 registered workers on our platform. We provide tech-enabled, end-to-end operational solutions primarily to consumer service businesses, including on-demand delivery solutions, mobility service solutions, housekeeping and accommodation solutions, and other services. Leveraging our internal technology infrastructure, we are able to deploy workers across different regions and industries to serve our customers in a flexible, standardized and specialized manner, such as fulfilling delivery orders of prepared food, grocery and fresh food, carrying out maintenance works for shared bikes, fulfilling intra-city and long-distance transportation orders, and providing housekeeping and accommodation services for hotels and B&Bs. We generate revenue primarily from service fees paid by our industry customers, and to a lesser extent, from rental fees under our car leasing agreements with drivers engaged in our ride-hailing solutions.

To the on-demand consumer service companies that we serve, our platform helps them mobilize a large team of workers who can follow industry-specific, standardized and highly efficient service procedures through a combination of training, performance monitoring and refinement, and incentives. As such, our industry customers can focus more on their business strategy and operational and financial performance. As of December 31, 2022, our industry customers comprised many top market players in their respective industries, such as *Meituan* and *Ele.me* in the on-demand delivery industry and other chain restaurants such as *KFC*, *Didi* and *Hello* in the mobility-as-a-service sector (including bike-sharing and ride-hailing), and *Hilton Hotels and Resorts*, *Kingkey Group* and *Marriott International* in the hotel industry. We had reached 109 cities across 30 provinces, municipalities and autonomous regions in China as of December 31, 2022.

To the workers on our platform, we provide them with diversified, flexible earning opportunities. We empower workers with minimal work experience to begin their career and progress with us. In the three months ended December 31, 2021 and 2022, we had approximately 59,400 and 57,000 average monthly active workers on our platform, respectively. We believe that the size of our workforce allows us to better serve our industry customers when they enter new geographical markets or new on-demand consumer service industries. We also encourage workers on our platform to bring in their friends, relatives and acquaintances to continually and organically expand our workforce network and minimize worker turnovers, making our platform more stable.

Leveraging *Quhuo+*, our proprietary technology infrastructure, we are able to centralize our operational management and streamline our solution process. For workers in a management position, such as team leaders for our on-demand delivery solutions, *Quhuo+* allows them to pinpoint workers on our platform to monitor their workload and performance, and dynamically manage staffing and maintain solution quality. With *Quhuo+*, team leaders are able to transcribe industry-specific KPIs obtained from industry customers into executable guidance for workers on our platform, and benchmark workforce performance across all workers and teams based on data-driven analytics to refine our solutions and optimize our operational efficiency. For rank-and-file workers, *Quhuo+* allows them to review their workload, access on-the-job training and review their performance. Moreover, we have developed *Quhuo+* into a scalable modular system with customizable parameters and settings to smoothly manage and transfer massive workers across different regions and industries we serve. As a result, we are able to cultivate a specialized yet flexible workforce and deploy the same workers across different industry settings based on their work schedules by, for example, allowing delivery riders on our platform to take part in our shared-bike maintenance solutions during their off-peak hours. As such, we are able to scale up our business and expand into greenfield regions or industries quickly and cost-effectively with minimal incremental costs on infrastructure.

The following diagram is a simplified presentation of our business model and our role as a gig economy platform:



Our Solutions

We have established a solid market presence in the on-demand industry and continued to expand into other industries by leveraging our accumulated industry knowledge and operational experience. We currently provide the following industry-tailored operational solutions, including on-demand delivery solutions, mobility service solutions, and housekeeping and accommodation solutions.

On-demand delivery solutions

We launched our on-demand delivery solutions in February 2013 with a focus on prepared food, and recently expanded our service scope to the delivery of other items, such as grocery and fresh food. We operate exclusively under the premium delivery model, which is characterized by, among others, higher service quality, service reliability and delivery speed compared to the crowdsourcing model. According to the F&S report, driven by the incentive to improve their returns and strengthen their brands through high-quality delivery services, major on-demand delivery platforms have gradually adopted the premium delivery model since 2015 and have fully partnered with third-party gig economy platforms, such as us, to fulfill premium deliveries in lieu of in-house delivery operations. With our on-demand delivery solutions, industry customers are able to scale up their delivery coverage quickly and complete additional deliveries at low incremental costs.

Our industry customers typically divide their intra-city delivery network into a number of delivery areas. We and our industry customers generally enter into a standard form delivery service agreement, pursuant to which we are assigned a certain number of delivery areas within a city. We deploy delivery riders on our platform to serve each industry customer. On the one hand, each delivery rider on our platform, after being assigned to a certain industry customer, obtains access to that customer's mobile app and dispatch portal to receive and complete delivery orders. We, on the other, offer onboarding logistics support and training, and manage delivery riders on our platform through *Qihuo+*. With our support, each team leader on our platform sets up a service station for one or more delivery areas and supervises all delivery riders in that service station under a unified management standard. Our team leaders also manage customer relationships within their assigned delivery areas. Under the supervision of the team leader, all delivery riders dispatched from a specific service station will be responsible solely for the delivery orders initiated within and destined for that delivery area. We may adjust the dispatch of workers among different delivery areas to accommodate the peak demand and seasonality swings for different industry customers.

A delivery service agreement typically is one year in term and is renewable by mutual consent. The agreement grants us a non-exclusive right to provide on-demand delivery services within designated delivery areas and contains certain restrictive covenants. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—We may be held liable for breach of contract under our agreements with industry customers." If we breach the terms of the delivery service agreement and fail to rectify the breach within a prescribed time frame, industry customers may unilaterally adjust the scope of our business cooperation, deduct outstanding fees payable to us, and/or terminate the agreement. We are also obligated to indemnify industry customers for personal injury and property loss or damage sustained by any third party caused by us or from the rendering of our delivery services. We sometimes are required to place a deposit with an industry customer, from which the customer is entitled to deduct liquidated damages or economic losses sustained. We derive revenue from service fees paid by industry customers based on the number of fulfilled orders, subject to KPI-based adjustments.

A typical delivery service agreement also sets forth detailed service standards and KPIs to measure the efficiency and effectiveness of our delivery services and the workplace safety in our daily operations, such as the timely delivery rate, complaint rate and accident rate. To ensure the quality of our solutions and cultivate a safety-conscious work environment, we require all delivery riders on our platform to abide by our delivery service standards. We have formulated a set of criteria in relation to service techniques and manners and safety consciousness that generally follow the KPIs required by our industry customers in an understandable manner for workers. We provide delivery riders with systematic training programs consisting of onboarding training, practical in-the-field training, and daily review and face-to-face meetings. The training covers topics ranging from delivery techniques, conversation manners, driving skills and techniques, complaint handling to health and safety matters. We continually evaluate their performance based on our service criteria, give them timely feedback based on the analysis of their track record, and guide their rectification. In addition, we have implemented various measures to enhance the safety of delivery riders on our platform, including assistance in obtaining insurance and handling emergency situations.

The following flowchart illustrates the typical transaction process of our on-demand delivery solutions:



As of December 31, 2022, we delivered our on-demand delivery solutions in 85 cities in China. In the three months ended December 31, 2020, 2021 and 2022, our average monthly delivery riders were over 48,900, 52,800 and 48,700 respectively, and the average monthly delivery orders fulfilled by those delivery riders were approximately 36.5 million, 52.8 million and 47.5 million, respectively.

Mobility service solutions

Our mobility service solutions comprise ride-hailing solutions, shared-bike maintenance solutions and freight service solutions.

Ride-hailing solutions

We launched our ride-hailing solutions in October 2018. Under the current regulatory regime in China, ride-hailing drivers are required to obtain licenses both for themselves and for the vehicles they steer. Ride-hailing companies and drivers may be subject to fines and bans for violation of the relevant regulations. We attract ride-hailing companies with our access to a fleet of qualified ride-hailing drivers that are in short supply. We attract qualified candidates to our platform with our car leasing arrangements, under which we sublease vehicles with the requisite license to drivers and charge them monthly rental fees. As a result, we relieve their financial burden in obtaining a vehicle when they enter the ride-hailing market. We also provide them with strong driver-centric support and services, such as filing for insurance claims, roadside assistance and vehicle repair and maintenance. In addition to inviting qualified ride-hailing drivers to join us, we also motivate workers with driving skills on our platform to obtain the required permit so that they could become qualified ride-hailing drivers and take part in our ride-hailing solutions. As of December 31, 2022, we had over 400 full-time ride-hailing drivers on our platform. We believe that it is more cost-effective to convert existing eligible workers on our platform into drivers than to attract new drivers through referrals or marketing campaigns and that our access to a large pool of eligible workers represents incremental growth potential.

Drivers use mobile apps from ride-hailing companies to acquire and complete ride orders. We receive performance data from ride-hailing companies and analyze these data to help drivers refine their services and increase their ratings and income level.

We primarily derive revenue from rental fees under our car leasing agreements with drivers. We may also charge ride-hailing companies services fees based on our consulting services to them.

As of December 31, 2022, we delivered our ride-hailing solutions to a major ride-hailing company in four cities. Drivers on our platform fulfilled approximately 1.6 million rides in 2022.

Shared-bike maintenance solutions

We launched our shared-bike maintenance solutions in January 2018 to address the imminent demand for maintenance and distribution services from bike-sharing companies. In particular, as certain bike-sharing platforms, such as Hello, have launched e-bikes, we have accordingly expanded our service scope. A common issue plaguing the bike-sharing businesses is the disproportionate geographical distribution of bikes as the demand for bikes can be unpredictable, asymmetric and fluctuating among different neighborhoods throughout the day. As a result, bike-sharing companies must deploy fleets of vehicles to redistribute the bikes to guarantee a desirable number of bikes at different locations. It is also critical for bike-sharing companies to identify, repair and replace malfunctioning bikes, including replacing batteries for e-bikes in a timely manner, not only to improve user experience and increase the turnover rate of the vehicles, but also to prevent safety hazards and other incidents that may result from malfunctioning bikes. Our shared-bike maintenance solutions presently include maintaining of orderliness of bikes, redistribution and transportation of idle bikes based on usage patterns within a designated area, identification and transportation of malfunctioning bikes, replacement of batteries for e-bikes, and transportation of e-bike batteries from warehouse to specific operational areas.

As the demand for our shared-bike maintenance solutions is more flexible compared to that of our on-demand delivery solutions, we encourage delivery riders on our platform to take part in our shared-bike maintenance solutions during their off-peak hours. We believe we can further unlock underutilized workforce capacity as we continue to innovate our solutions and expand into new industries.

We derive revenue from service fees paid by bike-sharing companies based on specific indicators for maintenance and transportation services, respectively. As of December 31, 2022, we delivered shared-bike maintenance solutions in 41 cities.

Freight service solutions

We commenced our freight service solutions for industry customers in July 2021 by fulfilling end-to-end intra-city and long-distance transportation orders. We deploy truck fleets to serve our industry customers and pay service fees to such fleets. As of December 31, 2022, we delivered our freight service solutions to two industry customers. We fulfilled approximately 54,100 orders in 2022.

Housekeeping and accommodation solutions and other services

We launched our housekeeping solutions in January 2019. We encourage workers on our platform with referral bonuses to bring in their relatives, friends and acquaintances to join our platform for our housekeeping solutions, which we believe helps us grow our workforce organically and enhance the stability and sustainability of our worker community. See “—Workers on Our Platform.”

We tailor our housekeeping solutions primarily for industry customers requiring standardized, high-quality housekeeping services to be provided on an efficient and responsive basis. Industry customers of our housekeeping solutions currently comprise hotels and B&Bs. Based on the operating needs of our industry customers, we formulate detailed action plans and training for housekeepers on our platform to ensure the consistency of solution quality. Our industry customer also conducts inspections of the cleaned property from time to time to ensure solution quality. Since 2023, we have established collaboration with Haidong Village in Harbin city of Heilongjiang Province, so as to expand our coverage of rural B&Bs. Going forward, we plan to enhance our solution offerings with AI chatbot technologies by introducing Baidu’s ERNIE Bot to our SaaS system, which is expected to assist industry customers for our housekeeping and accommodation solutions with online information maintenance, smart check-in and self-check-out processes for guests.

We derive revenue from service fees paid by our industry customers based on service hours and/or the number of fulfilled orders, subject to KPI-based adjustments. As of December 31, 2022, we delivered housekeeping solutions in 23 cities.

Furthermore, as we have expanded our customer portfolio and rendered services to B&Bs, we provide accommodation solutions, primarily focusing on facilitating B&B operations for our customers. We derive revenue primarily from service fees paid by industry customers based on the number of fulfilled orders. In addition, we continuously tap into new industries to provide diversified, flexible earning opportunities for workers on our platform.

Recent Business Development

We announced our international business initiative in 2023, and we have entered into strategic collaboration with an automobile enterprise in China, pursuant to which we help the enterprise expand overseas dealership channels and provide such overseas dealers with online car-hailing and on-demand delivery services and support.

Our Geographic Footprint

We operate across multiple industries within a single city in an efficient manner as we consolidate the management of each business line based on *Quhuo+* and our offline business support team. As of December 31, 2022, our geographic footprint reached 109 cities across 30 provinces, municipalities and autonomous regions in China, among which we provided solutions for multiple industries in 33 cities.

We generally focus on each city’s primary business districts and then gradually expand to adjacent areas to optimize our operational efficiency and cost management. We have already covered most provincial capitals and other major cities in China. We have also expanded into lower-tier cities, following the footsteps of our industry customers. We consider both external and internal factors in determining whether to launch our solution offerings in a new city. For example, we consider the size of the local workforce market, the level of average wage, the on-the-ground pricing of industry customers, and the prospective synergies between the expansion and our existing presence.

Workers on Our Platform

We establish business outsourcing relationships with workers on our platform, pursuant to which we pay service fees to workers engaged in our solutions, including those in a management position such as team leaders for our on-demand delivery solutions, as independent contractors through third-party labor service companies on a monthly basis. The service fees comprise base

pay calculated based on the number of fulfilled orders and adjustments calculated based on other criteria that follow the KPIs required by our industry customers.

The number of our average monthly active workers increased from approximately 54,500 in the three months ended December 31, 2020 to 59,400 in the three months ended December 31, 2021, and slightly decreased to 57,000 in the three months ended December 31, 2022. We provide workers with stable earning opportunities across different industry settings, career advancement prospects, and a supportive community with inclusive work-life support and services. As many workers joined us as fresh high school or college graduates with minimal work experience, we enable them to begin their career and progress on our platform. Moreover, many workers quit their old jobs under the traditional employment model, such as factory workers, and joined us for higher earning potential and more flexibility in terms of working hours and career options.

We manage workers on our platform primarily through *Quhuo+*. We provide comprehensive support to a novice worker in discharging his or her daily work routines and to a team leader in managing work assignment and tracking performance. We help workers with working gear and provide them with training and other resources to help them smoothly get started and elevate their productivity and earning levels. We also assist them in emergency assistance and applicable permits and license application. We cultivate a work environment that encourages every worker to take on more responsibilities, providing the support and the opportunity for them to not only make a living but also pursue a long-term career with us. As a novice worker accumulates the work experience and develops management skills, we offer the advancement opportunity to become a team leader and more. We also provide performance-based incentives to award excellence and motivate internal competition.

We attract workers to join us through multiple online and offline channels. We encourage the workers on our platform to bring in their friends, relatives and acquaintances to expand our worker network. We believe that the bonds among workers on our platform can be forged by such social relations, making our platform more stable and sustainable. We also make it possible for those who have temporarily left our platform to return to our platform. As their past job performance and other work information can be tracked down and retrieved, we are able to streamline the process for returnees.

Quhuo+

We have developed *Quhuo+* to centralize our operational management and streamline our solution process by eliminating middle-layer information gathering and reporting, which we believe is a key differentiator from many competitors that utilize a traditional model featuring multiple layers of management. We utilize *Quhuo+* to monitor the workload and performance of workers on our platform and analyze their performance data, which allows us to dynamically manage staffing and continually benchmark workforce performance across all workers and teams to maintain solution quality. In particular, by leveraging our data analytics capability, we are able to instruct each service station to deploy an appropriate number of delivery riders with the strongest track record of performance to serve a certain delivery area in need. We continue to refine our solutions and optimize our service quality and operational efficiency, through data-driven analytics based on worker management, solution performance and customer feedback.

With *Quhuo+*, we have assigned an internal team of operational managers to track and benchmark the performance data generated from our service stations for our on-demand delivery solutions and assist our team leaders in formulating performance improvement plans for the service stations they are in charge of. Our operational managers communicate with team leaders periodically to review the operating data on *Quhuo+* and discuss measures to address any issues identified. They are also in charge of maintaining relationships with industry customers, helping team leaders design and implement service fee plans of their respective service stations, applying for large expenses on behalf of their designated service stations, and assisting each service station in optimizing efficiency and reducing cost, logistics management, annual inspection of business registration, corporate culture development, and tax and financing matters. We believe our operational managers are able to help team leaders become more adaptive to the management role and develop and improve their effective managerial skills by applying the data and functions on *Quhuo+*. As of December 31, 2022, we had a team of 396 operational managers, all employed by us.

Quhuo+ allows us to cultivate a specialized yet flexible workforce and deploy the same workers across different industry settings based on their work schedules by, for example, allowing delivery riders on our platform to take part in our shared-bike maintenance solutions during their off-peak hours, which serves to optimize our operational cost and also diversify their earning opportunities. We have developed *Quhuo+* into a scalable modular system with customizable parameters and settings to smoothly manage and transfer a large team of workers across different regions and industries we serve and continually support the expanded scope and heightened complexity of our operations. As a result, we can scale our operations and replicate our success into greenfield regions or industries quickly and cost-effectively with minimal incremental costs on infrastructure. The team leader who operates in multiple industries can review the operating income and the staffing of multiple operational solutions in one management account.

Our Technology

Quhuo+ forms the backbone of our business operations. We strategically designed *Quhuo+* to be flexible and scalable with modularized functions. See “—*Quhuo+*” for details. As of December 31, 2022, we had a dedicated team of 53 technology research and development professionals with an average of seven years of the relevant industry experience.

We have developed reliable and stable network infrastructure to ensure high availability and a low risk of downtime. We primarily utilize third-party cloud service providers to host our network infrastructure for core operational functionality, data backup, and artificial intelligence application.

Data Privacy and Security

We process a large amount of data from workers on our platform. We also have access to certain operating data related to our performance from industry customers. We take the privacy of personal data and confidential information seriously and have implemented an internal data security management policy. We have also implemented a combination of various industry-standard encryption algorithms to protect sensitive personal information. In addition, we utilize a system of firewalls to prevent unauthorized access to our internal systems. Replications and backups are performed once every week on our server. Our IT department monitors the performance of our websites, technology systems and network infrastructure to enable us to respond promptly to potential problems. We also continuously review, improve and iterate our data privacy policies and security foundation.

Branding, Marketing and Customer Relationship

We believe word-of-mouth marketing has helped us achieve, and will continue to drive, organic growth in our workers. We also believe brand recognition is critical to our ability to retain or establish partnership with existing or new industry customers, and our general marketing efforts are designed to enhance our brand awareness and reputation among them. We primarily attract new industry customers with testimonials of our solutions and referrals by existing customers. We also approach prospective industry customers by attending key account meetings and industry conferences, or through introduction by our investors. We conduct KPI reviews with industry customers and take measures to maintain close rapport with them.

Competition

We believe that we have pioneered innovation serving on-demand consumer service businesses. While we have not identified any other platform in China with a similar business model and operational scale comparable to us, we may compete with labor outsourcing companies and service suppliers that are independent from or affiliated with industry customers, as well as online or offline workforce marketplaces in each industry sector we serve. Our addressable market within a single industry is highly fragmented, consisting of numerous small-scale, single-industry service suppliers with limited operational experience or geographical coverage. We believe that we can compete favorably on the basis of:

- capability to attract, retain and manage a sufficient number of workers;
- capability to establish and maintain partnerships with industry customers;
- technology infrastructure and data analytics capabilities;
- scope and quality of our solution offerings;
- industry-specific know-how and operational experience;
- geographical coverage;
- and brand recognition.

Intellectual Property

We regard our trademarks, domain names, know-how, proprietary technologies and other similar intellectual properties as critical to our success, and we rely on trademark and trade secret laws and confidentiality and non-compete agreements with our employees and others to protect our proprietary rights. As of the date of this annual report, we hold or otherwise have legal right to use 47 registered copyrights for software and 48 registered trademarks in China.

We intend to protect our technology and proprietary rights vigorously, but there can be no assurance that our efforts will be successful. Even if our efforts are successful, we may incur significant costs in defending our rights. From time to time, third parties may initiate litigation against us alleging infringement of their proprietary rights or declaring their non-infringement of our intellectual property rights. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—We may be subject to intellectual property infringement claims, which may be expensive to defend and may disrupt our business and operations.”

Insurance

We maintain various insurance policies to safeguard against risks and unexpected events. We purchase personal accident insurance for workers engaged in our on-demand delivery and shared-bike maintenance solutions, and automobile insurance for drivers engaged in our ride-hailing solutions. We purchase commercial liability insurance to protect our business against claims of property damage and bodily injury. We also provide our employees with social security insurance, including pension insurance, unemployment insurance, work-related injury insurance and medical insurance. However, we do not maintain property insurance policies covering our equipment and facilities for losses due to fire, earthquake, flood or any other disaster, except for certain service stations for our on-demand delivery solutions. Consistent with customary industry practice in China, we do not maintain business interruption insurance or key employee insurance for our executive officers. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—We have limited insurance coverage which could expose us to significant costs and business disruption.”

Regulations

This section sets forth a summary of the most significant rules and regulations that affect our business and operations in China.

Regulations Relating to Foreign Investment

Special Management Measures (Negative List) for the Access of Foreign Investment

Investment activities in the PRC by foreign investors are principally governed by the Guidance Catalogue of Industries for Foreign Investment, or the Guidance Catalog, which was promulgated and is amended from time to time by the Ministry of Commerce, or MOFCOM, and the National Development and Reform Commission, or the NDRC. Industries not listed in the catalog are generally deemed as falling into a fourth category “permitted” unless specifically restricted by other PRC laws. In addition, in December 2021, MOFCOM and the NDRC promulgated the Special Management Measures (Negative List) for the Access of Foreign Investment, or the Negative List (2021 version), which became effective on January 1, 2021 to amend the Guidance Catalog. Foreign investment in value-added telecommunications services (except for e-commerce, domestic multiparty communication store and forward service and call center) falls within the Negative List. As a result, foreign investors can only conduct investment activities through equity or contractual joint ventures with certain shareholding requirements and approvals from competent authorities. PRC partners are required to hold the majority interests in the joint ventures and approval from MOFCOM and the Ministry of Industry and Information Technology, or MIIT, for the incorporation of the joint ventures and the business operations. The Negative List (2021 version) further provides that where a domestic enterprise engaged in the business in the prohibited category seeks to issue and list its shares overseas, it shall complete an examination process and obtain approval from the relevant competent authorities of the State Council.

Pursuant to the Provisions on Administration of Foreign-Invested Telecommunications Enterprises promulgated by the State Council in December 2001 and most recently amended in 2022, or the FITE Regulations, the ultimate foreign equity ownership in a value-added telecommunications services provider may not exceed 50% unless otherwise allowed by the competent PRC governmental authorities. Moreover, for a foreign investor to acquire any equity interest in a value-added telecommunications business in China, it must obtain approvals from MIIT, which retain considerable discretion in granting approvals. MIIT issued the Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business, or MIIT Circular, in July 2006. MIIT Circular reiterated the regulations on foreign investment in telecommunications businesses, which require foreign investors to set up foreign invested enterprises and obtain telecommunications business operating licenses to conduct any value-added telecommunications business in China. Under MIIT Circular, a domestic company that holds a telecommunications business operating license is prohibited from leasing, transferring or selling the license to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities, to foreign investors that conduct value-added telecommunications business illegally in China.

To comply with PRC laws and regulations, we rely on contractual arrangements with the VIE to operate our business in China. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—Any failure by the VIE or its shareholders to perform their obligations under our contractual arrangements with them would have a material adverse effect on our business.”

Foreign Investment Law

On March 15, 2019, the National People’s Congress, or the NPC, approved the Foreign Investment Law, which came into effect on January 1, 2020 and replaced the PRC Equity Joint Venture Law, the PRC Cooperative Joint Venture Law and the Wholly Foreign-owned Enterprise Law, together with their implementation rules and ancillary regulations. The Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic invested enterprises in China. The Foreign Investment Law establishes the basic framework for the access to, and the promotion, protection and administration of foreign investments in view of investment protection and fair competition.

According to the Foreign Investment Law, the State Council will publish or approve to publish a catalogue for special administrative measures, or the “negative list.” The Foreign Investment Law grants national treatment to foreign invested entities, except for those foreign invested entities that operate in industries deemed to be either “restricted” or “prohibited” in the “negative list.” The Foreign Investment Law provides that foreign invested entities shall not operate foreign prohibited industries and foreign invested entities operating in foreign restricted industries shall meet the investment conditions stipulated under the negative list.

Furthermore, the Foreign Investment Law provides that foreign invested enterprises established according to the existing laws regulating foreign investment may maintain their structure and corporate governance within five years after the implementing of the Foreign Investment Law.

In addition, the Foreign Investment Law also provides several protective rules and principles for foreign investors and their investments in the PRC, including, among others, that local governments shall abide by their commitments to the foreign investors; foreign-invested enterprises are allowed to issue stocks and corporate bonds; except for special circumstances, in which case statutory procedures shall be followed and fair and reasonable compensation shall be made in a timely manner, expropriation or requisition of the investment of foreign investors is prohibited; mandatory technology transfer is prohibited; and the capital contributions, profits, capital gains, proceeds out of asset disposal, licensing fees of intellectual property rights, indemnity or compensation legally obtained, or proceeds received upon settlement by foreign investors within China, may be freely remitted inward and outward in RMB or a foreign currency.

On December 26, 2019, the State Council promulgated the Implementation Regulations on the Foreign Investment Law which came into effect on January 1, 2020. It further requires that foreign-invested enterprises and domestic enterprises shall be treated equally with respect to policy making and implementation.

According to the Foreign Investment Law, foreign investors or foreign-invested enterprises shall submit investment information to the competent commerce departments. On December 30, 2019, MOFCOM and the State Administration for Market Regulation, or SAMR, jointly issued the Measures for Reporting of Foreign Investment Information, or the Foreign Investment Information Measures, which came into effect on January 1, 2020 and replaced the Interim Administrative Measures for the Record-filing of the Establishment and Modification of Foreign-invested Enterprises. Starting from January 1, 2020, for foreign investors carrying out investment activities directly or indirectly in the PRC, foreign investors or foreign-invested enterprises shall submit investment information through the Enterprise Registration System and the National Enterprise Credit Information Publicity System operated by SAMR. Foreign investors or foreign-invested enterprises shall disclose their investment information by submitting reports for their establishments, modifications and cancellations and their annual reports in accordance with the Foreign Investment Information Measures. If a foreign-invested enterprise investing in the PRC has submitted reports for its establishment, modification and cancellation, as well as its annual reports, the relevant information will be shared by the competent market regulation department with the competent commercial department, and such foreign-invested enterprise is not required to submit the reports separately.

Licenses, Permits and Filings

The PRC government extensively regulates the telecommunications industry, including the internet sector. The State Council, MIIT, MOFCOM, the State Administration for Market Regulation, or the SAMR, the former State Administration of Press, Publication, Radio, Film and Television (which has been replaced by the State Administration of Radio and Television), the former China Banking Regulatory Commission, or the CBRC, and other relevant government authorities have promulgated an extensive regulatory scheme governing telecommunications. New laws and regulations may be adopted from time to time that will require us to obtain additional licenses and permits in addition to those that we currently have and will require us to address new issues that arise from time to time. In addition, substantial uncertainties exist regarding the interpretation and implementation of current and any future PRC laws and regulations applicable to the telecommunications.

We and the VIE are required to hold certain licenses and permits and to make certain filings with the relevant PRC governmental authorities in connection with various aspects of our and the VIE's business, including the following:

Value-added Telecommunications Business Operating Licenses

The PRC Telecommunications Regulations, or the Telecom Regulations, which were issued by the State Council in 2000 and were most recently amended in February 2016 are the primary governing law on telecommunications services. The Telecom Regulations set out the general framework for the provision of telecommunications services by PRC entities. Under the Telecom Regulations, telecommunications service providers are required to procure operating licenses prior to their commencement of operations. The Telecom Regulations draw a distinction between "basic telecommunications services" and "value-added telecommunications services." A "Catalog of Telecommunications Business" was issued as an attachment to the Telecom Regulations to categorize telecommunications services as basic or value-added. In December 2015, MIIT released the Catalog of Telecommunications Business (2015 Revision), or the 2015 Telecom Catalog, which was implemented in March 2016. Under the 2015 Telecom Catalog, both the online data processing and transaction processing business and information service business, continue to be categorized as value-added telecommunications services.

In March 2009, MIIT issued the Administrative Measures for Telecommunications Business Operating Permit, or the Telecom Permit Measures, which was implemented in 2009 and most recently amended in 2017. Pursuant to the Telecom Permit Measures, the operation scope of the value-added telecommunications business operating license, or the VATS license, shall detail the permitted activities of the enterprise to which it is granted. An approved telecommunications services operator shall conduct its business in accordance with the specifications recorded on its VATS License. The VATS Licenses can be further categorized based on the specific business operations permitted to be carried out under such licenses, including among others, the VATS Licenses for internet information services, or the ICP License, and the VATS License for electronic data interchange business, or the EDI License. In addition, a VATS License holder is required to obtain approval from the original permit-issuing authority prior to any change to its shareholders, business scope or other information recorded on such license. In February 2015, the State Council has issued the Decisions on Cancelling and Adjusting a Batch of Administrative Approval Items, which, among others, replaced the pre-registration approval requirement for telecommunications business with post-registration approval requirement.

The Provisions on the Administration of Foreign-Invested Telecommunications Enterprises was promulgated by the State Council on December 11, 2001 and was last amended on March 29, 2022 with effect from May 1, 2022. These regulations require that foreign-invested value-added telecommunications enterprises in mainland China must be established as Sino-foreign equity joint ventures and that the foreign investors may acquire up to 50% equity interests. Furthermore, a major foreign investor in a value-added telecommunications business in mainland China must demonstrate a good track record and experience in operating value-added telecommunications businesses. Moreover, foreign investors that meet these requirements must obtain approvals from the MIIT, to provide value-added telecommunication services in mainland China and the MIIT retain considerable discretion in granting such approvals.

In September 2000, the State Council promulgated the Administrative Measures on Internet Information Services, or the Internet Measures, most recently amended in January 2011. Under the Internet Measures, “internet information services” refer to the provision of information through the internet to online users and are divided into “commercial internet information services” and “non-commercial internet information services.” Commercial internet information services operators shall obtain an ICP License from the relevant government authorities within China.

Food Operation Permit

China has adopted a licensing system for food supply operations under the Food Safety Law and its implementation rules. Entities or individuals that intend to engage in food production, food distribution or food service businesses must obtain licenses or permits for such businesses. However, a permit is not required for the sales of edible agricultural products and pre-prepacked food. In case where only pre-packaged food is sold, a filing shall be made with the local food safety regulatory department of the local people’s government at or above the county level for the record. Pursuant to the Administrative Measures on Food Operation Licensing issued by the China Food and Drug Administration in August 2015 and amended in November 2017, an enterprise needs to obtain a Food Operation Permit from the local food and drug administration, and the permits already obtained by food business operators prior to the effective date of these new measures will remain valid for their originally approved validity period.

Regulations Relating to Internet Information Security and Privacy Protection

Internet information in China is regulated from a national security standpoint. The NPC has enacted the Decisions on Preserving Internet Security in December 2000 and amended in August 2009, which subject violators to potential criminal punishment in China for any attempt to: (1) gain improper entry into a computer or system of strategic importance; (2) disseminate politically disruptive information; (3) leak state secrets; (4) spread false commercial information; or (5) infringe intellectual property rights. The Ministry of Public Security of the PRC, or the MPS, has promulgated the Administrative Measures for the Computer Information Network and Internet Security Protection in December 1997 and amended in January 2011, which prohibits use of the internet in ways which, among other things, result in a leak of state secrets or a spread of socially destabilizing content. If an internet information service provider violates these measures, the MPS and its local branches may issue warning, confiscate the illegal gains, impose fines, and, in severe cases, advice competent authority to revoke its operating license or shut down its websites.

Under the Several Provisions on Regulating the Market Order of Internet Information Services, issued by MIIT in December 2011 and implemented in March 2012, an internet information service provider may not collect any user personal information or provide any such information to third parties without the consent of the user. An internet information service provider must expressly inform the users of the method, content and purpose of the collection and processing of such user personal information and may only collect such information necessary for the provision of its services. An internet information service provider is also required to properly maintain the user’s personal information, and in case of any leak or likely leak of the user’s personal information, the internet information service provider must take immediate remedial measures and, in severe circumstances, immediately report to the telecommunications authority. Moreover, pursuant to the Ninth Amendment to the Criminal Law issued by the SCNPC in August 2015 and implemented in November 2015, any internet service provider that fails to fulfill the obligations related to internet information security administration as required by applicable laws and refuses to rectify upon orders, shall be subject to criminal penalty for the result of (1) any dissemination of illegal information in large scale; (2) any severe effect due to the leakage of the client’s information; (3) any serious loss of criminal evidence; or (4) other severe situation. Any individual or entity that (1) sells or provides personal information to others in a way violating the applicable law, or (2) steals or illegally obtains any personal information, shall be subject to criminal penalty in severe situation. In addition, the Interpretations of the Supreme People’s Court and the Supreme People’s Procuratorate of the PRC on Several Issues Concerning the Application of Law in Handling Criminal Cases of Infringing Personal Information, issued in May 2017 and implemented in June 2017, clarified certain standards for the conviction and sentencing of the criminals in relation to personal information infringement.

In November 2016, the SCNPC promulgated the Cyber Security Law of the PRC, or the Cyber Security Law, which became effective on June 1, 2017. The Cyber Security Law requires that a network operator, which includes, among others, internet information services providers, take technical measures and other necessary measures in accordance with applicable laws and regulations and the compulsory requirements of the national and industrial standards to safeguard the safe and stable operation of its networks. We are subject to such requirements as we are operating website and mobile applications and providing certain internet services mainly through our mobile applications. The Cyber Security Law further requires internet information service providers to formulate contingency plans for network security incidents, report to the competent departments immediately upon the occurrence of any incident endangering cyber security and take corresponding remedial measures.

Internet information service providers are also required to maintain the integrity, confidentiality and availability of network data. The Cyber Security Law reaffirms the basic principles and requirements specified in other existing laws and regulations on personal data protection, such as the requirements on the collection, use, processing, storage and disclosure of personal data, and internet information service providers being required to take technical and other necessary measures to ensure the security of the personal information they have collected and prevent the personal information from being divulged, damaged or lost. Any violation of the Cyber Security Law may subject the internet information service provider to warnings, fines, confiscation of illegal gains, revocation of licenses, cancellation of filings, shutdown of websites or criminal liabilities.

The Rules on Protection of Personal Information of Telecommunications and Internet Users promulgated by MIIT in July 2013 and became effective in September 2013 contain detailed requirements on the use and collection of personal information as well as security measures required to be taken by telecommunications business operators and internet information service providers.

The Regulations on the Scope of Essential Personal Information for Common Types of Mobile Internet Applications, which was promulgated on March 12, 2021 and became effective on May 1, 2021, regulate the collection of personal information by mobile internet applications (Apps) and small programs developed based on such open platform interfaces that users can use without downloading or installing. Apps and small programs shall not deny users accessing their basic functions on the grounds that they do not agree to provide unnecessary personal information. Fail to comply with the above regulations would subject the relevant developers to governmental actions in accordance with the law.

On June 10, 2021, the SCNPC promulgated the Data Security Law, which took effect on September 1, 2021. The Data Security Law introduces a data classification and hierarchical protection system based on the level of importance of the 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. The appropriate level of protection measures is required to be taken for each respective data category. In addition, the Data Security Law provides a national security review procedure for those data activities which affect or may affect national security and imposes export restrictions on certain data and information. No entity or individual within the territory of the PRC may provide foreign judicial or law enforcement authorities with the data stored within the territory of the PRC without the approval of competent PRC authorities.

In April 2020, the CAC and several other administrations jointly promulgated the Cybersecurity Review Measures, which became effective on June 1, 2020. On December 28, 2021, the CAC, the NDRC, the SAMR, the MIIT and certain other PRC governmental authorities, jointly released the revised Cybersecurity Review Measures, which took effect on February 15, 2022. The revised Cybersecurity Review Measures provide, among others, that operators of critical information infrastructure that intend to purchase network products and services that affect or may affect national security shall file for cybersecurity review with the Cybersecurity Review Office under the CAC. However, the scope of network products or data processing activities that affect or may affect national security is still unclear, and there remains significant uncertainty in the interpretation and enforcement of relevant regulations.

The Personal Information Protection Law was promulgated by the SCNPC on August 20, 2021, which integrates the scattered rules with respect to personal information rights and privacy protection and took effect on November 1, 2021. The Personal Information Protection Law sets forth detailed rules on processing personal information, clarifies the relevant rights of the individuals and the obligations of the personal information processors, and further strengthens the liabilities for illegal processing of personal information. Only where there is a specific purpose and sufficient necessity, and under circumstances where strict protection measures are taken, may personal information processors process sensitive personal information. A personal information processor shall inform the individual of the necessity of processing such sensitive personal information and the impact thereof on the individual's rights and interest. Nonetheless, the Personal Information Protection Law raises the protection requirements for processing personal information, and many specific requirements remain to be clarified by the CAC, other regulatory authorities, and courts in practice.

Furthermore, the Data Outbound Transfer Security Assessment Measures (Draft for Comments), or the Draft Security Assessment Measures, was released by the CAC for public comment on October 29, 2021. The Draft Security Assessment Measures provide that, among others, data processors shall apply to competent authorities for security assessment when transferring important data abroad or when, in the case of a personal information processor that has processed personal information of more than one million individuals, transferring personal information abroad.

On November 14, 2021, the CAC published for public comment the Regulations on Network Data Security Management (Draft for Comments), or the Draft Network Data Security Regulations, which applies to activities relating to the use of networks to carry out data processing activities within the territory of the PRC. In accordance with the Draft Network Data Security Regulations, data processors shall apply for a cybersecurity review for overseas listing of data processors which process over one million users' personal information. In addition, the Draft Regulations also require that data processors processing important data or going public overseas shall conduct an annual data security self-assessment or entrust a data security service institution to do so, and submit the data security assessment report for the previous year to the local branch of the CAC before January 31 each year. As of the date of this annual report, the Draft Network Data Security Regulations has not been formally adopted and its final content, interpretation, implementation and effective date may be subject to change with substantial uncertainty.

Regulations Relating to Intellectual Property in the PRC

Trademark

The PRC Trademark Law and its implementation rules protect registered trademarks. The PRC Trademark Office of State Administration of Industry and Commerce is responsible for the registration and administration of trademarks throughout the PRC. The PRC Trademark Law has adopted a "first-to-file" principle with respect to trademark registration. Registered trademarks are granted a valid term of ten years, which could be renewed each time for another ten years commencing from the day after the expiry date of the last period of validity if the required renewal formalities have been completed. Pursuant to the PRC Trademark Law, counterfeit or unauthorized production of the label of another person's registered trademark, or sale of any label that is counterfeited or produced without authorization will be deemed as an infringement to the exclusive right to use a registered trademark. The infringing party will be ordered to stop the infringement immediately, a fine may be imposed and the counterfeit goods will be confiscated. The infringing party may also be held liable for the right holder's damages, which will be equal to the gains obtained by the infringing party or the losses suffered by the right holder as a result of the infringement, including reasonable expenses incurred by the right holder for stopping the infringement.

Domain name

MIIT promulgated the Measures on Administration of Internet Domain Names on August 24, 2017, which took effect on November 1, 2017. MIIT is the major regulatory body responsible for the administration of the PRC internet domain names, under supervision of which the China Internet Network Information Center, or the CNNIC, is responsible for the daily administration of ".cn" domain names and Chinese domain names. The CNNIC adopts a "first-to-file" principle with respect to the registration of domain names. Applicants for registration of domain names must provide the true, accurate and complete information of their identities to domain name registration service institutions. The applicants will become the holder of such domain names upon the completion of the registration procedure.

Copyright

The PRC Copyright Law, or the Copyright Law, which took effect on June 1, 1991 and was latest amended in 2020, provides that Chinese citizens, legal persons, or other organizations shall, whether published or not, own copyright in their copyrightable works, which include, among others, works of literature, art, science, social science, engineering technology and computer software. Copyright owners enjoy certain legal rights, including right of publication, right of authorship and right of reproduction. The Copyright Law extends copyright protection to Internet activities, products disseminated over the Internet and software products. In addition, the Copyright Law provides for a voluntary registration system administered by the China Copyright Protection Center. According to the Copyright Law, an infringer of the copyrights shall be subject to various civil liabilities, which include ceasing infringement activities, apologizing to the copyright owners and compensating the loss of copyright owner. Infringers of copyright may also subject to fines and/or administrative or criminal liabilities in severe situations.

Pursuant to the Computer Software Copyright Protection Regulations promulgated by the State Council on December 20, 2001 and amended on January 30, 2013, Chinese citizens, legal persons and other organizations shall enjoy copyright on software they develop, regardless of whether the software is released publicly. Software copyright commences from the date on which the development of the software is completed. The protection period for software copyright of a legal person or other organizations shall be 50 years, concluding on December 31 of the 50th year after the software's initial release. The software copyright owner may go through the registration formalities with a software registration authority recognized by the State Council's copyright administrative department. The software copyright owner may authorize others to exercise that copyright and is entitled to receive remuneration.

Patent

According to the PRC Patent Law (revised in 2020), the patent administrative department under the State Council shall be responsible for administration of patent matters nationwide. The patent administration departments of provincial, autonomous region or municipal governments are responsible for administering patent law within their respective jurisdictions. The Chinese patent system adopts a first-to-file principle, which means that when more than one person files different patent applications for the same invention, only the person who files the application first is entitled to obtain a patent of the invention. Patents in China fall into three categories: invention, utility model and design. To be patentable, an invention or a utility model must meet three criteria: novelty, inventiveness and practicability. A patent is valid for twenty years in the case of an invention and ten years in the case of utility models and designs. The PRC Patent Law was recently amended on October 17, 2020 and came into effect on June 1, 2021.

Regulations Relating to Labor Protection in the PRC

Labor Contract Law

The PRC Labor Contract Law, or the Labor Contract Law, which became effective on January 1, 2008 and was amended on December 28, 2012, is primarily aimed at regulating rights and obligations of employer and employee relationships, including the establishment, performance and termination of labor contracts. Pursuant to the Labor Contract Law, labor contracts shall be concluded in writing if labor relationships are to be or have been established between employers and the employees. Employers are prohibited from forcing employees to work above certain time limit and employers shall pay employees for overtime work in accordance with national regulations. In addition, employee wages shall be no lower than local standards on minimum wages and must be paid to employees in a timely manner.

Interim Provision on Labor Dispatch

Pursuant to the Interim Provisions on Labor Dispatch promulgated by the Ministry of Human Resources and Social Security on January 24, 2014 and became effective on March 1, 2014, dispatched workers are entitled to equal pay with full-time employees for equal work. Employers are allowed to use dispatched workers for temporary, auxiliary or substitutive positions, and the number of dispatched workers may not exceed 10% of the total number of employees.

PRC Civil Code

Pursuant to the PRC Civil Code, which was promulgated by the National People's Congress on May 28, 2020 and became effective on January 1, 2021, employers shall bear tortious liability for any injury or damage caused to other people by their employees in the course of their work. Parties that use dispatched labor shall bear tortious liability for any injury or damage caused to other people by dispatched personnel during the course of their work during the labor dispatch period; the labor dispatching party shall bear corresponding supplementary liability where it is at fault.

Social insurance and housing fund

As required under the Regulation of Insurance for Labor Injury implemented on January 1, 2004 and amended in 2010, the Provisional Measures for Maternity Insurance of Employees of Corporations implemented on January 1, 1995, the Decisions of the State Council on the Establishment of a Unified Program for Old-Aged Pension Insurance issued on July 16, 1997, the Decisions of the State Council on the Establishment of the Medical Insurance Program for Urban Workers promulgated on December 14, 1998, the Unemployment Insurance Measures promulgated on January 22, 1999 and the PRC Social Insurance Law implemented on December 29, 2018, employers are required to provide their employees in the PRC with welfare benefits covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. These payments are made to local administrative authorities. Any employer that fails to make social insurance contributions may be ordered to rectify the non-compliance and pay the required contributions within a prescribed time limit and be subject to a late fee. If the employer still fails to rectify the failure to make the relevant contributions within the prescribed time, it may be subject to a fine ranging from one to three times the amount overdue. In accordance with the Regulations on the Management of Housing Fund which was promulgated by the State Council in 1999 and amended in 2002 and 2019, employers must register at the designated administrative centers and open bank accounts for depositing employees' housing funds. Employer and employee are also required to pay and deposit housing funds, with an amount no less than 5% of the monthly average salary of the employee in the preceding year in full and on time.

On July 20, 2018, the Central Committee of the Communist Party of China and the State Council released the Reform Plan on the National and Local Taxation Collection and Management System, according to which the tax authority bears the responsibility of calculating and collecting social insurance premiums from January 1, 2019.

Employee stock incentive plan

SAFE promulgated the Notice of Issues Related to the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Listed Company, or SAFE Circular 7, on February 15, 2012. Under SAFE Circular 7, employees, directors, supervisors, and other senior management who participate in any stock incentive plan of an publicly-listed overseas company and who are PRC citizens or non-PRC citizens residing in China for a continuous period of no less than one year, subject to a few exceptions, are required to entrust a qualified domestic agent to register with SAFE through the domestic company, which may be a PRC subsidiary of such overseas listed company, and complete certain other procedures. In addition, the State Administration of Taxation, or SAT, has issued certain circulars concerning employee stock options and restricted shares. Under these circulars, employees working in the PRC who exercise stock options or are granted restricted shares will be subject to PRC individual income tax. The PRC subsidiaries of an overseas listed company are required to file documents related to employee stock options and restricted shares with relevant tax authorities and to withhold individual income taxes of employees who exercise their stock option or purchase restricted shares. If the employees fail to pay or the PRC subsidiaries fail to withhold income tax in accordance with relevant laws and regulations, the PRC subsidiaries may face sanctions imposed by the tax authorities or other PRC governmental authorities.

Pursuant to the Circular of the State Administration of Foreign Exchange on Issues Concerning the Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles, or SAFE Circular 37, issued by SAFE and effective on July 4, 2014, if a non-listed special purpose vehicle grants equity-based incentives to its directors, supervisors, senior officers in the domestic enterprise directly or indirectly controlled by it, as well as other employees in employment or labor relations with the company by using the company's stock rights or options, the relevant domestic individual residents may apply for going through foreign exchange registration of a special purpose vehicle before exercise of its rights.

Flexible Employment

On July 14, 2020, 13 PRC governmental departments, including but not limited to the NDRC, MOFCOM, the SMAR, the Ministry of Human Resources and the Social Security of the PRC, jointly issued the Opinions on Supporting the Healthy Development of New Industry and New Models to Activate the Consuming Market and Drive the Expansion of Employment, according to which the establishment of flexible employment and shared employment service platforms is encouraged.

On July 28, 2020, the General Office of the State Council of the PRC released the Opinions on Supporting Multiple Channels of Flexible Employment, emphasizing that flexible and diverse employment arrangements, such as self-employment, part-time and new employment forms, are important ways for workers to increase their income from employment and play an important role in widening new channels of employment, and proposing to broaden the development of flexible employment channels, optimize the environment for independent entrepreneurship, and increase support for flexible employment protection.

Regulations Relating to Tax in the PRC

Income Tax

The PRC Enterprise Income Tax Law, or the EIT Law, imposes a uniform enterprise income tax rate of 25% on all PRC resident enterprises, including foreign-invested enterprises, unless they qualify for certain exceptions. The enterprise income tax is calculated based on the PRC resident enterprise's global income as determined under PRC tax laws and accounting standards. If a non-resident enterprise sets up an organization or establishment in the PRC, it will be subject to enterprise income tax for the income derived from such organization or establishment in the PRC and for the income derived from outside the PRC but with an actual connection with such organization or establishment in the PRC. The EIT Law and its implementation rules permit certain "high and new technology enterprises strongly supported by the state" that independently own core intellectual property and meet statutory criteria, to enjoy a reduced 15% enterprise income tax rate. In January 2016, the SAT, the Ministry of Science and Technology, and the Ministry of Finance, or MOF, jointly issued the Administrative Rules for the Certification of High and New Technology Enterprises, specifying the criteria and procedures for the certification of High and New Technology Enterprises.

On April 22, 2009, SAT issued the Circular of the State Administration of Taxation on Issues Relating to Identification of PRC-Controlled Overseas Registered Enterprises as Resident Enterprises in Accordance with the De Facto Standards of Organizational Management, or SAT Circular 82, which provides certain specific criteria for determining whether the "de facto management body" of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the SAT's general position on how the "de facto management body" text should be applied in determining the tax resident status of all offshore enterprises. According to SAT Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its "de facto management body" in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (1) the primary location of the day-to-day operational management is in the PRC; (2) decisions relating to the enterprise's financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (3) the enterprise's primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (4) at least 50% of voting board members or senior executives habitually reside in the PRC. Further to SAT Circular 82, on July 27, 2011, SAT issued the Announcement of the State Administration of Taxation on Printing and Distributing the Administrative Measures for Income Tax on PRC-controlled Resident Enterprises Incorporated Overseas (Trial Implementation), or SAT Bulletin 45, which took effect in September 2011, to provide more guidance on the implementation of SAT Circular 82. SAT Bulletin 45 provides for procedures and administration details of determination on resident status and administration on post-determination matters.

Value-added tax

The Provisional Regulations of the PRC on Value-added Tax, the VAT Regulation, were promulgated by the State Council on December 13, 1993 and came into effect on January 1, 1994 which were subsequently amended from time to time. The Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax (Revised in 2017) was promulgated on December 13, 1993 and latest amended on November 19, 2017. On April 4, 2018, MOF and SAT jointly promulgated the Circular on Adjustment of Value-Added Tax Rates, or Circular 32. All enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, sales of services, intangible assets, real property and the importation of goods within the territory of the PRC are taxpayers under the VAT Law. A VAT of 6% applies to revenue derived from the provision of on-demand delivery services and shared-bike maintenance services. Prior to April 1, 2019, a VAT of 16% applied to revenue derived from the rendering of car rental services. According to the Announcement on Policies for Deepening the VAT Reform, a VAT of 13% applies to revenue derived from the rendering of car rental services after April 1, 2019. Unlike business tax, a general VAT taxpayer is allowed to offset the qualified input VAT paid on taxable purchases against the output VAT chargeable on the modern services provided.

Dividend withholding tax

The EIT Law provides that since January 1, 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident investors which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC.

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 Incomes, or the Double Tax Avoidance Arrangement, and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under the Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%. However, based on the Circular on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties, or SAT Circular 81, issued on February 20, 2009 by SAT, if the relevant PRC tax authorities determine, in their discretions, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment. According to the Circular on Several Questions regarding the “Beneficial Owner” in Tax Treaties, which was issued on February 3, 2018 by SAT and took effect on April 1, 2018, when determining the applicant’s status of the “beneficial owner” regarding tax treatments in connection with dividends, interests or royalties in the tax treaties, several factors, including without limitation, whether the applicant is obligated to pay more than 50% of his or her income in twelve months to residents in third country or region, whether the business operated by the applicant constitutes the actual business activities, and whether the counterparty country or region to the tax treaties does not levy any tax or grant tax exemption on relevant incomes or levy tax at an extremely low rate, will be taken into account, and it will be analyzed according to the actual circumstances of the specific cases. This circular further provides that applicants who intend to prove his or her status of the “beneficial owner” shall submit the relevant documents to the relevant tax bureau according to the Announcement on Issuing the Measures for the Administration of Non-Resident Taxpayers’ Enjoyment of the Treatment under Tax Agreements.

On February 3, 2015, SAT issued the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises, or SAT Bulletin 7. SAT Bulletin 7 extends its tax jurisdiction to cover not only where a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposition of the equity interests of an overseas holding company, or an Indirect Transfer, but also to transactions involving transfer of other taxable assets through offshore transfer of a foreign intermediate holding company. SAT Bulletin 7 also brings challenges to both foreign transferor and transferee (or other person who is obligated to pay for the transfer) of taxable assets. Where a non-resident enterprise transfers taxable asset indirectly by disposing of the equity interests of an overseas holding company, which is an Indirect Transfer, the non-resident enterprise as either transferor or transferee, or the PRC entity that directly owns the taxable assets, may report such Indirect Transfer to the relevant tax authority. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. Both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

On October 17, 2017, SAT issued the Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source, or SAT Bulletin 37, which came into effect on December 1, 2017. According to SAT Bulletin 37, where the non-resident enterprise fails to declare its tax payable pursuant to Article 39 of the EIT Law, the tax authority may order it to pay its tax due within required time limits, and the non-resident enterprise shall declare and pay its tax payable within such time limits specified by the tax authority. If the non-resident enterprise voluntarily declares and pays its tax payable before the tax authority orders it to do so, it shall be deemed that such enterprise has paid its tax payable in time.

Regulations Relating to Overseas Listing

On December 24, 2021, the CSRC issued the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments), or collectively, the Draft Overseas Listing Regulations, which propose to require PRC companies and their overseas special purpose vehicles to file with the CSRC and meet compliance rules for their listing in overseas markets. Specifically, an overseas offering and listing by a PRC company, whether directly or indirectly, an initial or follow-on offering, must be filed with the CSRC. The examination and determination of an indirect offering and listing will be conducted on a substance-over-form basis, and an offering and listing shall be deemed as a PRC company’s indirect overseas offering and listing if the issuer meets the following conditions: (1) any of the operating income, gross profit, total assets, or net assets of the PRC enterprise in the most recent fiscal year was more than 50% of the relevant line item in the issuer’s audited consolidated financial statement for that year; and (2) senior management personnel responsible for business operations and management are mostly PRC citizens or have domicile in the PRC, and the principal place of business is in the PRC or main business activities are carried out in the PRC. The issuer or its affiliated PRC entity, as the case may be, shall file with the CSRC for its initial public offering, follow-on offering and other equivalent offering activities. Particularly, the issuer shall submit the filing with respect to its initial public offering and listing within three business days after its initial filing of the listing application, and submit the filing with respect to its follow-on offering within three business days after the completion of the follow-on offering. Failure to comply with the filing requirements may result in fines to the relevant PRC companies, suspension of their businesses, revocation of their business licenses and operation permits and fines on the controlling shareholder and other responsible persons. The Draft Overseas Listing Regulations also set forth certain regulatory red lines for overseas offerings and listings by PRC enterprises.

On February 17, 2023, the CSRC promulgated Trial Administrative Measures of the Overseas Securities Offering and Listing by Domestic Companies, or the Overseas Listing Trial Measures, and five supporting guidelines, which became effective on March 31, 2023. According to the Overseas Listing Trial Measures, PRC domestic companies that seek to offer and list securities in overseas markets, either in direct or indirect means, are required to fulfill the filing procedure with the CSRC and report relevant information. The Overseas Listing Trial Measures provides that an overseas listing or offering is explicitly prohibited, if any of the following: (1) such securities offering and listing is explicitly prohibited by provisions in laws, administrative regulations and relevant state rules; (2) the intended securities offering and listing may endanger national security as reviewed and determined by competent authorities under the State Council in accordance with law; (3) the domestic company intending to make the securities offering and listing, or its controlling shareholder(s) and the actual controller, have committed relevant crimes such as corruption, bribery, embezzlement, misappropriation of property or undermining the order of the socialist market economy during the latest three years; (4) the domestic company intending to make the securities offering and listing is currently under investigations for suspicion of criminal offenses or major violations of laws and regulations, and no conclusion has yet been made thereof; or (5) there are material ownership disputes over equity held by the domestic company's controlling shareholder(s) or by other shareholder(s) that are controlled by the controlling shareholder(s) and/or actual controller.

The Overseas Listing Trial Measures also provides that if the issuer meets both the following criteria, the overseas securities offering and listing conducted by such issuer will be deemed as indirect overseas offering by PRC domestic companies: (1) 50% or more of any of the issuer's operating revenue, total profit, total assets or net assets as documented in its audited consolidated financial statements for the most recent fiscal year is accounted for by domestic companies; and (2) the main parts of the issuer's business activities are conducted in mainland China, or its main place(s) of business are located in mainland China, or the majority of senior management staff in charge of its business operations and management are PRC citizens or have their usual material events in mainland China.

The Overseas Listing Trial Measures further provides that, initial public offerings or listings in overseas markets by domestic companies, either in direct or indirect form shall be filed with the CSRC pursuant to the requirements of the Overseas Listing Trial Measures within three business days after the relevant application is submitted overseas. The companies that had already been listed on overseas stock exchanges prior to March 31, 2023 or the companies that had obtained the approval from overseas supervision administrations or stock exchanges for its offering and listing prior to March 31, 2023 and will complete their overseas offering and listing prior to September 30, 2023 are not required to make immediate filings for its listing, but are required make filings for subsequent offerings in accordance with the Overseas Listing Trial Measures. Companies that had already submitted an application for an initial public offering to overseas supervision administrations but had not yet obtained the approval from overseas supervision administrations or stock exchanges for the offering and listing prior to March 31, 2023 may arrange for the filing within a reasonable time period and should complete the filing procedure before such companies' overseas issuance and listing. Companies already listed overseas as of March 31, 2023 are not required to make immediate filing with the CSRC, but are required to file with the CSRC within three business days after the completion of subsequent securities offerings in the same overseas market where its securities were previously offered and listed, or file the required filing materials with the CSRC within three working days after the submission of relevant application for subsequent securities offerings and listings in other overseas markets. In addition, an overseas listed company is required to report to the CSRC within three business days after the occurrence and announcement of any of the following material events: (1) a change of control of the listed company; (2) the investigation, sanction or other measures undertaken by any foreign securities regulatory agencies or authorities in respect of the listed company; (3) a change of listing status or transfer of listing segment; and (4) the voluntary or mandatory delisting of the listed company. If there is any material change of the principal business of the listed company after the overseas offering and listing so that the listed company is no longer required to file with the CSRC, it shall file a specific report and a legal opinion issued by a domestic law firm to the CSRC within three business days after the occurrence thereof.

Regulations Relating to Foreign Exchange

General administration of foreign exchange

Under the PRC Foreign Currency Administration Rules promulgated on January 29, 1996 and most recently amended on August 5, 2008 and various regulations issued by SAFE and other relevant PRC government authorities, Renminbi is convertible into other currencies for current account items, such as trade-related receipts and payments and payment of interest and dividends. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside the PRC for of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from SAFE or its local office.

Payments for transactions that take place within the PRC must be made in Renminbi. Unless otherwise approved, PRC companies may not repatriate foreign currency payments received from abroad or retain the same abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks under the current account items subject to a cap set by SAFE or its local office. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaged in settlement and sale of foreign exchange pursuant to relevant SAFE rules and regulations. For foreign exchange proceeds under the capital accounts, approval from SAFE is generally required for the retention or sale of such proceeds to a financial institution engaged in settlement and sale of foreign exchange.

Pursuant to the Circular of the SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment, or SAFE Circular 59, promulgated by SAFE on November 19, 2012, which became effective on December 17, 2012 and was further amended on May 4, 2015, approval of SAFE is not required for opening a foreign exchange account and depositing foreign exchange into the accounts relating to the direct investments. SAFE Circular 59 also simplified foreign exchange-related registration required for the foreign investors to acquire the equity interests of Chinese companies and further improve the administration on foreign exchange settlement for foreign-invested enterprises.

The Circular on Further Simplifying and Improving the Foreign Currency Management Policy on Direct Investment, or SAFE Circular 13, effective from June 1, 2015, cancels the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment and simplifies the procedure of foreign exchange-related registration. Pursuant to SAFE Circular 13, the investors shall register with banks for direct domestic investment and direct overseas investment.

The Circular on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise, or SAFE Circular 19, which was promulgated by SAFE on March 30, 2015 and became effective on June 1, 2015, provides that a foreign-invested enterprise may, according to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange administration has confirmed monetary capital contribution rights and interests (or for which the bank has registered the injection of the monetary capital contribution into the account). Pursuant to SAFE Circular 19, for the time being, foreign-invested enterprises are allowed to settle 100% of their foreign exchange capital on a discretionary basis; a foreign-invested enterprise shall truthfully use its capital for its own operational purposes within the scope of business; where an ordinary foreign-invested enterprise makes domestic equity investment with the amount of foreign exchanges settled, the invested enterprise must first go through domestic re-investment registration and open a corresponding account for foreign exchange settlement pending payment with the foreign exchange administration or the bank at the place where it is registered.

The Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or SAFE Circular 16, which was promulgated by SAFE and became effective on June 9, 2016, provides that enterprises registered in the PRC may also convert their foreign debts from foreign currency into Renminbi on self-discretionary basis. SAFE Circular 16 also provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on self-discretionary basis, which applies to all enterprises registered in the PRC.

Pursuant to the Circular on Further Promoting the Cross-border Trade and Investment Facilitation, or SAFE Circular 28, which was promulgated by SAFE on October 23, 2019, non-investment foreign-invested companies are allowed to conduct domestic equity investment with settled capital from foreign exchange if such investment projects are true and compliant and do not otherwise violate the existing Special Management Measures (Negative List) for the Access of Foreign Investment.

Offshore investment

Under the Circular of the State Administration of Foreign Exchange on Issues Concerning the Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles, or SAFE Circular 37, issued by SAFE and effective on July 4, 2014, PRC residents are required to register with the local SAFE branch prior to contributing assets or equity interests in an offshore special purpose vehicle, or the SPV, which is defined as offshore enterprises directly established or indirectly controlled by PRC residents for investment and financing purposes, with the enterprise assets or interests they hold in China or overseas. The term “control” means obtain the operation rights, right to proceeds or decision-making power of a SPV through acquisition, trust, holding shares on behalf of others, voting rights, repurchase, convertible bonds or other means. An amendment to registration or subsequent filing with the local SAFE branch by such PRC resident is also required if there is any change in basic information of the offshore company or any material change with respect to the capital of the offshore company. At the same time, SAFE has issued the Operation Guidance for the Issues Concerning Foreign Exchange Administration over Round-trip Investment regarding the procedures for SAFE registration under SAFE Circular 37, which became effective on July 4, 2014 as an attachment of SAFE Circular 37.

Under the relevant rules, failure to comply with the registration procedures set forth in SAFE Circular 37 may result in bans on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliates, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations.

Overseas direct investment

Pursuant to the Administrative Measures on Overseas Investment issued by MOFCOM on September 6, 2014 and became effective on October 6, 2014, where the outbound investment carried out by an enterprise involves sensitive countries and regions and sensitive industries, verification management shall be implemented, and archive filing management shall be implemented for other circumstances of outbound investment of an enterprise. For outbound investments subject to archive filing, a central enterprise shall report its outbound investments to the Ministry of Commerce for filing and a local enterprise to the provincial department in charge of commerce at its locality. Where two or more enterprises jointly make an outbound investment, the relatively major shareholder shall be responsible for going through the archive filing or verification procedures after acquiring the written consent of other investors. If the shareholding ratio of each investor is the same, the investors shall negotiate and decide to entrust one of them to going through the archive filing or verification procedures. If investors are not within the same administrative jurisdiction, the Ministry of Commerce or the department in charge of commerce which is responsible for handling the verification and archive filing shall notify the departments in charge of commerce of the place where other investors are located of the relevant results.

Administrative Measures for the Outbound Investment of Enterprises

Pursuant to the Administrative Measures for the Outbound Investment of Enterprises issued by the NDRC on December 26, 2017 and became effective on March 1, 2018, non-sensitive projects carried out by investors to make direct investment with assets and equities or provide financing or a guarantee subject to record-filing administration and the authority in charge of record-filing shall be the development and reform authority under the provincial government at the place where the investor is registered if the investor is a local enterprise and the amount of investment made by the Chinese investor is less than US\$300 million. Where a project is carried out by two or more investors together, the investor making a larger amount of investment shall be responsible for applying for the approval or record-filing after obtaining the consent of other investors. Where the amount of investment made by each investor is the same, one of the investors shall be selected by consensus to apply for the approval or record-filing.

Regulations on Foreign Debt

A loan made by a foreign entity as direct or indirect shareholder in a foreign-invested enterprise is considered to be foreign debt in China and is regulated by various laws and regulations, including the Regulation of the People's Republic of China on Foreign Exchange Administration, the Interim Provisions on the Management of Foreign Debts, the Statistical Monitoring of Foreign Debts Tentative Provisions, and the Administrative Measures for Registration of Foreign Debts. Under these rules and regulations, a shareholder loan in the form of foreign debt made to a PRC entity does not require the prior approval of SAFE. However, such foreign debt must be registered with and recorded by SAFE or its local branches within 15 business days after entering into the foreign debt contract. Pursuant to these rules and regulations, the maximum amount of the aggregate of (1) the outstanding balance of foreign debts with a term not longer than one year, and (2) the accumulated amount of foreign debts with a term longer than one year, of a foreign-invested enterprise shall not exceed the difference between its registered total investment and its registered capital, or Total Investment and Registered Capital Balance.

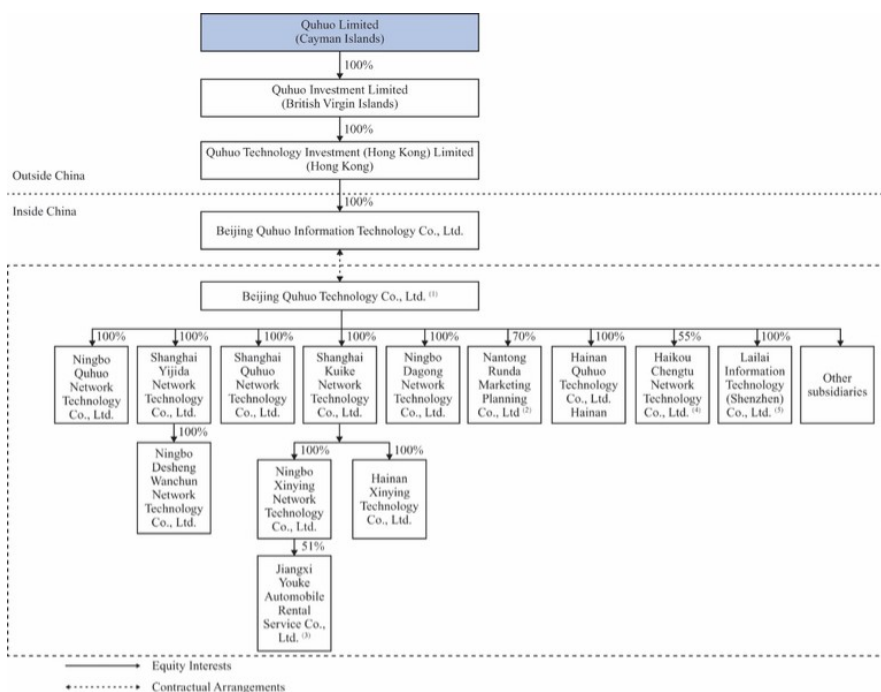
On January 12, 2017, the People's Bank of China, or the PBOC, promulgated the Notice of the People's Bank of China on Full-coverage Macro-prudent Management of Cross-border Financing, or PBOC Circular 9, which sets forth an upper limit for PRC entities, including foreign-invested enterprises and domestic enterprises, regarding their foreign debts. Pursuant to PBOC Circular 9, the limit of foreign debts for enterprises shall be calculated based on the following formula: the limit of foreign debt, or the Net Assets Limit = net assets * cross-border financing leverage ratio * macro-prudent regulation parameter. "Net assets" is calculated as the net assets value stated in the relevant entity's latest audited financial statement. The cross-border financing leverage ratio for enterprises is two. The macro-prudent regulation parameter is one. PBOC Circular 9 does not supersede the Interim Provisions on the Management of Foreign Debts, but rather serves as a supplement to it. In addition, according to PBOC Circular 9, a foreign loan must be filed with SAFE through the online filing system of SAFE after the loan agreement is signed and at least three business days prior to the borrower withdraws any amount from such foreign loan. On March 11, 2020, the PBOC and SAFE promulgated the Adjustment of Full-coverage Macro-prudent Management of Cross-border Financing, which adjusted the macro-prudent regulation parameter to 1.25. On January 7, 2021, the macro-prudent regulation parameter was lowered back to 1.

Regulations on Dividend Distribution

The principal laws, rules and regulations governing dividend distribution by foreign-invested enterprises in the PRC are the Company Law of the PRC, as amended, the Foreign Investment Law and its implementation regulations. Under these laws, rules and regulations, foreign-invested enterprises may pay dividends only out of their accumulated profit, if any, as determined in accordance with PRC accounting standards and regulations. Under the current regulatory regime in the PRC, foreign-invested enterprises in the PRC may pay dividends only out of their retained earnings, if any, determined in accordance with PRC accounting standards and regulations. A PRC company is required to set aside as statutory reserve funds at least 10% of its after-tax profit, until the cumulative amount of such reserve funds reaches 50% of its registered capital unless laws regarding foreign investment provide otherwise. A PRC company 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.

C. Organizational Structure

The following diagram illustrates our simplified corporate structure, including our principal subsidiaries, the VIE and its subsidiaries, as of the date of this annual report:



- (1) The shareholders of Beijing Quhuo Technology Co., Ltd., or Beijing Quhuo, include Ms. Lili Sun, spouse of Mr. Leslie Yu, Mr. Shuyi Yang, Mr. Zhen Ba, Ningbo Maiken Investment Management LLP and Mr. Tongtong Li, holding 25.7264%, 24.9784%, 9.6547%, 38.8250% and 0.8154% of the equity interests of Beijing Quhuo, respectively.
- (2) The remaining 30% of the equity interests of Nantong Runda Marketing Planning Co., Ltd. is owned by two independent individuals.
- (3) The remaining 49% of the equity interests of Jiangxi Youke Automobile Rental Service Co., Ltd. is owned by an independent individual.
- (4) The remaining 45% of the equity interest of Haikou Chengtu Network Technology Co., Ltd. is owned by three independent third parties.
- (5) In November 2020, we acquired a 54.22% equity interest in Lailai Information Technology (Shenzhen) Co., Ltd., an on-demand workforce platform that specializes in housekeeping solutions for hotels and B&Bs. In January 2022, we acquired the remaining 45.78% equity interest in Lailai.

The following table sets out the details of our subsidiaries and the affiliated entities that are significant to us.

Subsidiaries	Place of Incorporation
Quhuo Investment Limited	BVI
Quhuo Technology Investment (Hong Kong) Limited	Hong Kong
Beijing Quhuo Information Technology Co., Ltd.	PRC
Affiliated Entities	Place of Incorporation
Beijing Quhuo Technology Co., Ltd.	PRC
Shanghai Quhuo Network Technology Co., Ltd.	PRC
Ningbo Xinying Network Technology Co., Ltd.	PRC
Nantong Runda Marketing Planning Co., Ltd.	PRC
Shanghai Yijida Network Technology Co., Ltd.	PRC
Ningbo Desheng Wanchun Network Technology Co., Ltd.	PRC
Ningbo Quhuo Network Technology Co., Ltd.	PRC
Ningbo Dagong Network Technology Co., Ltd.	PRC
Jiangxi Youke Automobile Rental Service Co., Ltd.	PRC
Haikou Chengtu Network Technology Co., Ltd.	PRC
Lailai Information Technology (Shenzhen) Co., Ltd.	PRC
Hainan Xinying Technology Co., Ltd.	PRC
Hainan Quhuo Technology Co., Ltd.	PRC
Hainan Quxing Holdings Co., Ltd.	PRC

Our Contractual Arrangements

Current PRC laws and regulations impose restrictions or prohibitions on foreign ownership and investment in companies that engage in value-added telecommunications services. We are a company registered in the Cayman Islands, and WFOE, our PRC subsidiary, is a foreign-invested enterprise under PRC laws. We conduct our business in China through Beijing Quhuo, the VIE, and its subsidiaries, or collectively the affiliated entities, in China, and may in the future commence or acquire businesses that are subject to the restrictions with respect to value-added telecommunications services. We have entered into a series of contractual arrangements, through WFOE, with the VIE and its registered shareholders to direct the activities of the affiliated entities that most significantly impact their economic performance, through which we commence our business.

Through the VIE agreements, the shareholders of the VIE effectively assigned all of their voting rights underlying their respective equity interest in the VIE to us, which enabled us to direct the activities of the VIE that most significantly impact its economic performance, and we, through our WFOE, have the right to receive economic benefits from the VIE that could potentially be significant to the VIE and have the obligation to absorb losses of the VIE that could potentially be significant to the VIE.

As a result of our direct ownership in WFOE and the contractual arrangements with the VIE, we are considered the primary beneficiary of the VIE and consolidate the VIE as required by ASC Topic 810, Consolidation.

The following is a summary of the currently effective contractual arrangements by and among WFOE, the VIE and its shareholders.

Power of Attorney. Pursuant to the power of attorney dated as of August 23, 2019 executed and issued by the VIE's shareholders, each of them irrevocably appointed and authorized WFOE or its designee(s) to act on their respective behalf as exclusive agent and attorney-in-fact, to the extent permitted by PRC law, with respect to all rights of shareholders concerning all the equity interest held by each of these shareholders in the VIE, including but not limited to the power to vote on its behalf on all matters of the VIE requiring shareholder approval under PRC laws and regulations and the articles of association of the VIE, rights to information relating to all business aspects of the VIE, proposing to convene or attend shareholder meetings, signing the resolutions and minutes of such meetings, exercising all the other rights as shareholders, such as nomination rights, appointment rights, the right to receive dividends and the right to sell, transfer, pledge or dispose of all the equity held in part or in whole.

Equity Interest Pledge Agreements. Under each of the equity interest pledge agreements dated as of August 23, 2019 entered into by and among WFOE, the VIE and each of its shareholders, each of the VIE's shareholders will pledge all of their equity interests in the VIE to WFOE as security and guarantee on performance of the respective obligations of the VIE and each of its shareholders under the exclusive call option agreement, the exclusive business cooperation agreement and the power of attorney. If any of the VIE or its shareholders breach their contractual obligations under those agreements, WFOE, as the pledgee, will be entitled to certain rights, including enforcing the pledge immediately. WFOE may transfer all or any of its rights and obligations under any of the equity interest pledge agreements to its designee(s) any time after notifying the VIE and the signing shareholder. This pledge has become effective since the date the pledged equity interests were registered with the competent administration for industry and commerce and will remain in effect until the fulfillment of all the obligations under the exclusive call option agreement, the exclusive business cooperation agreement and the power of attorney.

Letters of Shareholder Undertaking, Letters of Spousal Undertakings and Letter of Confirmation. Pursuant to each of the letters of shareholder undertaking dated as of August 23, 2019 executed and provided by each of the individual shareholders of the VIE, each of the letters of spousal undertakings dated as of as of August 23, 2019 executed and provided by each of the spouse of the VIE's individual shareholders and a letter of confirmation dated as of August 23, 2019 executed and issued by Mr. Leslie Yu in favor of us, each of the individual shareholders and the spouse of such shareholders, among others, (1) confirmed the duly authorization and validity of and the arrangements under the exclusive call option agreement, the exclusive business cooperation agreement, the equity interest pledge agreements and the power of attorney, (2) unconditionally and irrevocably agreed that the in the event of their deaths, incapacity or other circumstances under which they no longer have the ability to perform their obligations under the agreements described herein, their respective equity interests in the VIE together with all interests attached thereto will be transferred, free of charge and without any condition, to WFOE or its designee(s) to the extent permitted by PRC laws; and (3) confirmed that the respective equity interests of the VIE's shareholders in the VIE are exclusive and personal assets of such shareholders, instead of common assets jointly owned with their respective spouse, and agreed to be subject to the obligations and arrangements under the agreements described herein in the event any equity interest in the VIE will be held by the respective spouse of such shareholders.

Exclusive Business Cooperation Agreement. Pursuant to the exclusive business cooperation agreement dated as of August 23, 2019 entered into by and between WFOE and the VIE, WFOE has the exclusive right, during the term of the exclusive business cooperation agreement to provide or designate any third-party to provide, among others, comprehensive business support, technological support, and relevant consulting services, the scope of which is to be determined by WFOE from time to time. WFOE owns the exclusive intellectual property rights created as a result of the performance of this agreement. In exchange, the VIE and its subsidiaries pay service fees to WFOE at the time and in an amount to be determined by WFOE in its sole discretion. This agreement shall remain effective for ten years from the execution date and may be extended by WFOE at its sole discretion.

Exclusive Call Option Agreement. Under the exclusive call option agreement dated as of August 23, 2019 entered into by and between WFOE, the VIE and its shareholders, each of the shareholders of the VIE irrevocably granted WFOE or its designated representatives an exclusive right to purchase, to the extent permitted by the PRC laws and regulations and at the sole discretion of WFOE all or any part of their equity interests in the VIE at a purchase price equal to the lowest price permissible under the PRC laws and regulations. The shareholders of the VIE shall also promptly give all considerations they received from the exercise of the options to WFOE or its designee(s). WFOE or its designated representatives have sole discretion as to when to exercise such options, either in part or in full. Without prior written consent of WFOE, the VIE's shareholders shall not, among others, sell, transfer, mortgage, create any pledge or encumbrance on or otherwise dispose their equity interests in the VIE. The term of this agreement is ten years and may be extended at WFOE's sole discretion until the entire equity interests in the VIE transferred to WFOE or its designee(s).

In the opinion of Commerce & Finance Law Offices, our PRC legal counsel, the ownership structures of the VIE and WFOE currently do not result in any violation of applicable PRC laws and regulations currently in effect; and the contractual arrangements between WFOE, the VIE and its shareholders governed by PRC law currently are valid and legally binding on each party thereto and enforceable in accordance with the terms thereof, subject as to enforceability to applicable bankruptcy, insolvency, moratorium, reorganization and similar laws affecting creditors' rights generally, the discretion of relevant governmental authorities in exercising their authority in connection with the interpretation and implementation thereof, and the application of relevant PRC laws and policies thereto, and to general equity principles.

However, our PRC legal counsel has also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. Accordingly, the PRC regulatory authorities may take a view that is contrary to or otherwise different from the opinion of our PRC legal counsel. It is uncertain whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. If we or the VIE is found to be in violation of any existing or future PRC laws or regulations or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—The PRC government may find that the contractual arrangements that establish our corporate structure for operating our business do not comply with applicable PRC laws and regulations,” “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—Uncertainties exist with respect to the interpretation and implementation of the newly enacted Foreign Enterprise Investment Law and how it may impact the viability of our current corporate structure, corporate governance, business, financial condition, results of operations and prospects” and “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system could adversely affect us.”

Financial Support Undertaking Letters

We executed a financial support undertaking letter addressed to the VIE, pursuant to which we irrevocably undertake to provide unlimited financial support to the VIE to the extent permissible under the applicable PRC laws and regulations, regardless of whether the VIE has incurred an operational loss. The form of financial support includes but is not limited to cash, entrusted loans and borrowings. We will not request repayment of any outstanding loans or borrowings from the VIE if it or its shareholders do not have sufficient funds or are unable to repay such loans or borrowings. The financial support undertaking letter is effective from the date of the other agreements entered into among WFOE, the VIE and its shareholders until the earlier of (1) the date on which all of the equity interests of the VIE have been acquired by us or our designated representative(s), and (2) the date on which we in our sole and absolute discretion unilaterally terminate the applicable financial support undertaking letter by giving 30-day prior written notice to the VIE.

We expect to provide the financial support if and when required with a portion of the proceeds from our initial public offering in July 2020 and proceeds from the issuance of equity or debt securities in the future.

D. Property, plants and equipment

Our principal executive offices are located in Beijing, China, where we lease premises of approximately 1,280 square meters, with a lease term of two years. As of December 31, 2022, we leased properties in other cities with an aggregate of over 6,300 square meters to support our business operations, with lease terms primarily ranging from one to two years.

We lease all of the facilities that we currently occupy, which we believe are adequate to meet our needs for the foreseeable future.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our consolidated financial statements and their related notes included in this annual report. This report contains forward-looking statements. In evaluating our business, you should carefully consider the information provided under the caption “Item 3. Key Information—D. Risk Factors” in this annual report. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

A. Operating Results

Overview

We are a gig economy platform focusing on community-centered services in China. We operate a platform of large, flexible and standardized workforce. We provide tech-enabled, end-to-end operational solutions primarily to consumer service businesses, including on-demand delivery solutions, mobility service solutions, housekeeping and accommodation solutions and other services.

We generate revenue primarily from service fees paid by our industry customers, and to a lesser extent, from rental fees under our car leasing agreements with drivers engaged in our ride-hailing solutions. We incur cost from paying service fees to workers engaged in our solutions as independent contractors.

We have grown rapidly in recent years to achieve greater economies of scale. Our revenues were RMB2,580.8 million, RMB4,025.3 million and RMB3,820.4 million (US\$553.9 million) in 2020, 2021 and 2022, respectively. We recorded net loss of RMB5.6 million, RMB191.2 million and RMB16.4 million (US\$2.4 million) in 2020, 2021 and 2022, respectively. Excluding the effect of share-based compensation expenses, we recorded adjusted net income of RMB77.1 million and RMB3.3 million (US\$0.5 million) in 2020 and 2022, respectively, and adjusted net loss of RMB122.3 million in 2021. See “—Non-GAAP Financial Measures.”

General Factors Affecting Our Results of Operations

Our results of operations and financial condition are affected by general factors driving China’s gig economy and consumer service market, including (1) economic factors, such as China’s overall economic growth, the increase in per-capita disposable income and the level and growth in consumer spending in China, (2) technology factors, such as development of mobile technology and the rate of mobile internet penetration in China, and (3) labor factors, such as rising labor costs in China. Unfavorable changes in any of these general factors could materially and adversely affect our business and results of operations.

Specific Factors Affecting Our Results of Operations

While our business is influenced by general factors affecting the gig economy and on-demand consumer service market in China generally, our results of operations are also directly affected by certain company specific factors, including the following major factors:

Our ability to grow on-demand delivery solutions

We currently generate substantially all of our revenues from on-demand delivery solutions, and our ability to grow these solutions is critical to our results of operations and financial condition. Factors affecting the growth of our on-demand delivery solutions include the overall market demand for online ordering of prepared food, the competitiveness of our solutions in terms of service quality and pricing, our ability to maintain and increase our fee levels vis-à-vis industry customers, our strategic partnerships with industry customers, our relationships with workers on our platform, and our ability to increase the share of wallet from industry customers in the current geographical markets where we operate as well as our ability to expand into new geographical markets. Adverse changes of these factors will affect our ability to grow on-demand delivery solutions.

Our ability to expand our customer portfolio and industry coverage

Certain industry customers for our on-demand delivery solutions have contributed a significant portion of our revenues in the past. The business performance of these industry customers will affect our results of operations and prospects. We continually seek to diversify our customer portfolio to reduce the concentration of our revenue stream through competitive solution offerings. In addition, we launched mobility service and housekeeping and accommodation solutions in recent years, and we plan to continue to expand into new industries. Our platform and business model in the new industries we recently entered into have not been fully proven given our limited operating history. We may incur significant cost and experience a prolonged ramp-up period, and our ability to apply our accumulated industry knowledge and operational experience to these new industries is critical to our business growth and prospects.

Our ability to attract, retain and manage workers cost-effectively

Our operational cost is affected by the number of workers on our platform and the amount of service fees we paid to workers and third-party labor service companies. Our continued growth depends in part on our ability to cost-effectively attract, retain and manage workers on our platform, especially our ability to cultivate a flexible workforce and deploy the same workers across different industry settings by having them serve multiple roles offered on our platform to optimize our operational cost. We have focused on offering better earning opportunities and career prospects and enhancing the bonds among our workers. Our ability to attract, retain and manage workers cost-effectively can be affected by a number of factors, including the quality of our training, the work-life support and services we provide, the attractiveness of the earning opportunities and career prospects we offer, and other macroeconomic, social and political factors that may affect labor cost, supply or migration.

Our ability to compete and manage our growth effectively

As our addressable market within a single industry setting is highly fragmented, we must continue to compete effectively in order to solidify our market leading position and maintain long-term profitability. In each industry setting we serve, we compete with labor outsourcing companies and service suppliers that are independent from or affiliated with industry customers, as well as online workforce marketplaces. In addition, we have historically incurred significant costs in a lump sum to acquire the rights to render on-demand delivery services in additional delivery areas for certain industry customers and may continue to make more such acquisitions to expand the geographical coverage of our on-demand delivery solutions. As we continue to grow our business and increase our market share, our ability to acquire more service stations at favorable pricing, control our costs and expenses, improve operational efficiency by achieving greater economies of scale, and compete effectively with competitors is crucial to our sustainable growth.

Continued investment in our technology infrastructure and talent

We continue to invest in our technology infrastructure, including *Quhuo+*, to accommodate the expanded scope and heightened complexity of our operations. An enhanced technology infrastructure based on *Quhuo+* will allow us to continually optimize our operational efficiency, refine our solutions through improved data-driven analytics, facilitate our expansion into new geographical markets and industries. We also continue to invest in talent, particularly technicians, engineers and other tech-related talents, which will increase our research and development expenses. Our ability to maintain and improve the functionality of our technology infrastructure in line with our business scale will be a key driver for our sustainable growth.

Seasonality

We experience seasonality in our business, primarily attributable to the seasonality of our industry customers' businesses. For example, we generally experience an increase in demand for our on-demand delivery solutions during inclement weather conditions and holidays and suffer a shortage of workforce during Chinese New Year holidays which may fall between late January and late February. Other seasonal trends may develop, or these current seasonal trends may become more extreme, which would contribute to fluctuations in our results of operations.

Strategic investment and acquisitions

We have made, and intend to continue to make, strategic acquisitions to solidify our current market presence and expand into new industries. We intend to selectively pursue strategic alliances and investments to further strengthen our competitiveness. We will evaluate and execute alliance, investment and acquisition opportunities that complement and scale up our business, optimize our profitability, help us expand into adjacent industries and add new capabilities to our platform. Our strategic alliances, investments and acquisitions may affect our business growth.

COVID-19 outbreak

Since the outbreak of COVID-19 throughout China and other countries and regions, a series of precautionary and control measures have been implemented worldwide to contain the virus. The outbreak of COVID-19 has had certain negative impact on the overall economy of the regions where we deliver our solutions. Many businesses and social activities in China and other countries and regions have been severely disrupted, including those of our industry customers. The global outbreak has also caused market panics, which materially and negatively affected the global financial markets, such as the plunge of global stocks on major stock exchanges in the middle of March 2020. Such disruption and the potential slowdown of the global economy have had and could continue to have a material adverse effect on our results of operations and financial condition. For example, in 2021, we experienced a surge in the number of delivery orders during the Chinese New Year as a result of the continuing impact of the COVID-19, which exceeded our normal delivery capacity. As a result, we temporarily adopted a subsidy policy to attract, retain and incentivize our workers to perform delivery services during the Chinese New Year. On the other hand, government efforts to contain the spread of COVID-19, including “stay-at-home” advice, widespread business closures, travel restrictions and emergency quarantines, adversely affected the customer demand of our other solutions, including mobility service solutions and housekeeping and accommodation solutions.

The PRC governments at all levels have strategically adjusted pandemic prevention policies and lift the restrictive measures aimed at controlling the spread of the COVID-19 virus since December 2022, and there had been a noticeable uptick in infections among people, which resulted in enterprises imposing their own alternative working arrangements. As a result, we and the VIE experienced temporary disruption to business operations where many of our employees and workers on our platform were infected with COVID-19 in December 2022.

Amid the COVID-19 pandemic, we expanded our on-demand delivery solutions to tap into the grocery delivery market, as stay-at-home orders and social distancing caused an increase in the demand for local grocery delivery services. We entered into cooperation with new industry customers, such as *Meituan Grocery*, *Taoxianda* and *Hema Fresh*, to mitigate the negative impact of COVID-19 on our on-demand delivery business by unlocking underutilized workforce capacity.

We have not experienced any material adverse impact on our liquidity and cash flows since the outbreak. Except for the impact discussed above, we do not anticipate any prolonged material adverse impact on our business, results of operations and financial condition from the COVID-19 outbreak, as the Chinese government has strategically adjusted pandemic prevention policies, and economic activities have begun to recover and return to normal nationwide. We are nonetheless closely monitoring the development of the COVID-19 outbreak and continuously evaluating any potential impact on our business, results of operations and financial condition. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—Any health pandemics, including the recent global outbreak of COVID-19, and other natural disasters and calamities, could have a material adverse effect on our business operations.”

Non-GAAP Financial Measures

To supplement our consolidated financial statements which are presented in accordance with U.S. GAAP, we use adjusted net income/loss and adjusted EBITDA, which are non-GAAP financial measures, in evaluating our operating results and for financial and operational decision-making purposes. Adjusted net income/loss represents net income before share-based compensation expenses. Adjusted EBITDA represents adjusted net income/loss before income tax expense, depreciation, amortization and interest expense. We believe that adjusted net income/loss and adjusted EBITDA help identify underlying trends in our business that could otherwise be distorted by the effect of share-based compensation expenses. We believe that such non-GAAP financial measures also provide useful information about our operating results, enhance the overall understanding of our past performance and future prospects and allow for greater visibility with respect to key metrics used by our management in its financial and operational decision-making.

The non-GAAP financial measures are not defined under U.S. GAAP and are not presented in accordance with U.S. GAAP. It should not be considered in isolation or construed as alternatives to net loss or any other measure of performance or as an indicator of our operating performance. Investors are encouraged to review the historical non-GAAP financial measure in light of the most directly comparable GAAP measures, as shown below. The non-GAAP financial measures presented here may not be comparable to similarly titled measures presented by other companies. Other companies may calculate similarly titled measures differently, limiting their usefulness as comparative measures to our data. We encourage investors and others to review our financial information in its entirety and not rely on a single financial measure.

The table below sets forth a reconciliation of the non-GAAP financial measures for the periods indicated:

	For the year ended December 31,			
	2020	2021	2022	
	RMB	RMB	RMB	US\$
	(in thousands)			
GAAP net loss	(5,604)	(191,230)	(16,414)	(2,380)
Reconciliation item:				
Add:				
Share-based compensation expenses, net of tax impact of nil	82,667	68,932	19,762	2,865
Non-GAAP adjusted net income/(loss)	77,063	(122,298)	3,348	485
Add:				
Income tax expense	25,428	12,027	21,002	3,045
Depreciation	6,257	5,233	7,513	1,089
Amortization	13,749	25,278	21,094	3,058
Interest expense	8,068	7,026	5,683	824
Non-GAAP adjusted EBITDA	130,565	(72,734)	58,640	8,501

Key Components of Our Results of Operations

Revenues

We generate revenues from on-demand delivery solutions, mobility service solutions and housekeeping solutions and other services. In 2020, 2021 and 2022, our total revenues were RMB2,580.8 million, RMB4,025.3 million and RMB3,820.4 million (US\$553.9 million), respectively. The following table sets forth the breakdown of our total revenues, both in absolute amounts and as a percentage of total revenues, for the periods indicated.

	For the year ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	US\$
	(RMB in thousands, except for percentages)					
Revenues:						
On-demand delivery solutions	2,536,818	98.3	3,828,956	95.1	3,638,729	527,566
Mobility service solutions	31,587	1.2	110,168	2.7	108,081	15,670
Housekeeping solutions	12,405	0.5	79,735	2.0	72,576	10,523
Others	—	—	6,420	0.2	992	144
Total revenues	2,580,810	100.0	4,025,279	100.0	3,820,378	553,903

On-demand delivery solutions

In 2020, 2021 and 2022, our revenues generated from on-demand delivery solutions were RMB2,536.8 million, RMB3,829.0 million and RMB3,638.7 million (US\$527.6 million), representing 98.3%, 95.1% and 95.3% of our total revenues in the same periods, respectively. We derive revenue from service fees paid by industry customers based on the number of fulfilled orders, generally subject to monthly dynamic KPI-based adjustments, such as the timely delivery rate and complaint rate. Different industry customers may use different formulas to calculate such adjustments, which may change from time to time in line with their specific requirement and assessment of our services.

Mobility service solutions

Our mobility service solutions comprise ride-hailing solutions, shared-bike maintenance solutions and freight service solutions. Our revenues generated from mobility solutions were RMB31.6 million, RMB110.2 million and RMB108.1 million (US\$15.7 million) in 2020, 2021 and 2022, respectively. For shared-bike maintenance solutions, we derive revenue from service fees paid by bike-sharing companies based on service hours and/or the number of shared-bikes we transported and identified as malfunctioned. For ride-hailing solutions, we primarily derived revenue from rental fees under our car leasing agreements with drivers. For freight service solutions, we derive revenue from service fees paid by industry customers based on the number of transportation orders we fulfilled.

Housekeeping solutions

We launched our housekeeping solutions in January 2019, and continuously tapped into new industries to provide diversified, flexible earning opportunities for workers on our platform. We generated revenues of RMB12.4 million, RMB79.7 million and RMB72.6 million (US\$10.5 million) from housekeeping solutions in 2020, 2021 and 2022, respectively. We primarily derived revenue from service fees paid by industry customers based on the number of fulfilled orders.

Cost of revenues

Our cost of revenues was RMB2,388.3 million, RMB3,849.7 million and RMB3,567.7 million (US\$517.3 million) in 2020, 2021 and 2022, respectively. The following table sets forth the components of cost of revenues, both in absolute amount and as a percentage of our total revenues, for the periods indicated.

	For the year ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	US\$ %
(in thousands, except for percentages)						
Cost of revenues:						
Service fees paid to workers and team leaders	2,177,376	84.4	3,452,926	85.8	3,187,567	462,152 83.5
Hiring expenses	60,744	2.4	127,649	3.2	137,066	19,873 3.6
Insurance expenses	65,133	2.5	108,114	2.7	88,669	12,856 2.3
Office and equipment expenses	54,706	2.1	93,484	2.3	88,258	12,796 2.3
Freight services costs	—	—	10,361	0.3	27,276	3,955 0.7
Car rental and maintenance expenses	7,885	0.3	17,746	0.4	10,195	1,478 0.3
Platform commissions	1,767	0.1	7,942	0.2	1,431	208 0.0
Others(1)	20,688	0.8	31,460	0.8	27,228	3,948 0.7
Total	2,388,299	92.5	3,849,682	95.6	3,567,690	517,266 93.4

(1) Represents depreciation and amortization, taxes and surcharges and other costs.

Service fees paid to workers and team leaders

We incurred service fees paid to workers and team leaders in relation to our on-demand delivery solutions, mobility service solutions and housekeeping and accommodation solutions and other services. Our service fees were RMB2,177.4 million, RMB3,452.9 million and RMB3,187.6 million (US\$462.2 million) in 2020, 2021 and 2022, respectively.

Hiring expenses

Hiring expenses related to service fees paid to third-party labor service companies and feral fees paid to existing workers on our platform. Our hiring expenses were RMB60.7 million, RMB127.6 million and RMB137.1 million (US\$19.9 million) in 2020, 2021 and 2022, respectively.

Insurance expenses

Insurance costs were incurred for purchasing relevant insurance policies for workers on our platform. Our insurance costs were RMB65.1 million, RMB108.1 million and RMB88.7 million (US\$12.9 million) in 2020, 2021 and 2022, respectively.

Office and equipment expenses

Office and equipment expenses related to rental fees and property management fees in relation to our service stations and on-demand delivery supplies purchased for riders. Our office and equipment expenses were RMB54.7 million, RMB93.5 million and RMB88.3 million (US\$12.8 million) in 2020, 2021 and 2022, respectively.

Freight services costs

Freight services costs were related to our freight service solutions and primarily represented service fees paid to the fleets. Our freight services costs were nil, RMB10.4 million and RMB27.3 million (US\$4.0 million), respectively.

Car rental and maintenance expenses

Car rental and maintenance expenses related to rental fees we paid to lessors for rented vehicles for our mobility service solutions and the depreciation expense and maintenance expense associated with the vehicles we owned. Our car rental and maintenance costs were RMB7.9 million, RMB17.7 million and RMB10.2 million (US\$1.5 million) in 2020, 2021 and 2022, respectively.

Platform commissions

Platform commissions represented commission charges paid to B&B reservation platforms in relation to our accommodation services. Our platform commissions were RMB1.8 million, RMB7.9 million and RMB1.4 million (US\$0.2 million), respectively.

Gross Profit

As a result of the foregoing, our gross profit was RMB192.5 million, RMB175.6 million and RMB252.7 million (US\$36.6 million) in 2020, 2021 and 2022, respectively, and our gross profit margin was 7.5%, 4.4% and 6.6% in 2020, 2021 and 2022, respectively.

Operating Expenses

Our operating expenses consist of general and administrative expenses, research and development expenses, gain/(loss) on disposal of assets and goodwill impairment. The following table sets forth the components of operating expenses, in absolute amounts and as a percentage of our total revenues, for the periods indicated.

	For the year ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	US\$
(in thousands, except for percentages)						
Operating expenses:						
General and administrative expenses	(202,963)	(7.9)	(240,749)	(6.0)	(213,592)	(30,968)
Research and development expenses	(13,095)	(0.5)	(20,122)	(0.5)	(12,540)	(1,818)
Gain/(loss) on disposal of assets, net	3,243	0.1	(2,564)	(0.1)	13,975	2,026
Goodwill impairment	(336)	(0.0)	(51,971)	(1.3)	(4,882)	(708)
Total operating expenses	(213,151)	(8.3)	(315,406)	(7.8)	(217,039)	(31,468)

General and administrative expenses

We recorded general and administrative expenses of RMB203.0 million, RMB240.7 million and RMB213.6 million (US\$31.0 million) in 2020, 2021 and 2022, respectively. Our general and administrative expenses consist primarily of (1) salaries and benefits for our operational staff, (2) share-based compensation expenses and (3) office expenses.

Research and development expenses

We recorded research and development expenses of RMB13.1 million, RMB20.1 million and RMB12.5 million (US\$1.8 million) in 2020, 2021 and 2022, respectively. Our research and development expenses consist primarily of salaries and benefits for our research and development personnel. We believe that our continued investment in research and development is critical to our growth and expect that our research and development expenses will increase in absolute amount as we seek to upgrade our technology infrastructure, including *Quhuo+*, to support our business growth.

Gain/(loss) on disposal of assets, net

We recorded gain on disposal of assets, net of RMB3.2 million and RMB14.0 million (US\$2.0 million) in 2020 and 2022, respectively, and we recorded loss on disposal of assets, net of RMB2.6 million in 2021, which primarily related to the transfer of certain customer relationships related to our on-demand delivery solutions to third parties.

Goodwill impairment

We recorded goodwill impairment of RMB0.3 million, RMB52.0 million and RMB4.9 million (US\$0.7 million) in 2020, 2021 and 2022, respectively, which was primarily related to the businesses we acquired and the reduced service scope of our shared-bike maintenance solutions.

Taxation

Cayman Islands

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution, brought within the jurisdiction of the Cayman Islands. In addition, the Cayman Islands does not impose withholding tax on dividend payments.

British Virgin Islands

Our wholly-owned subsidiary in the British Virgin Islands, Quhuo Investment Limited and all dividends, interest, rents, royalties, compensation and other amounts paid by Quhuo Investment Limited to persons who are not resident in the British Virgin Islands and any capital gains realized with respect to any shares, debt obligations, or other securities of the Company by persons who are not resident in the British Virgin Islands are exempt from all provisions of the Income Tax Ordinance in the British Virgin Islands.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not resident in the British Virgin Islands with respect to any shares, debt obligation or other securities of the Company.

All instruments relating to transfers of property to or by Quhuo Investment Limited and all instruments relating to transactions in respect of the shares, debt obligations or other securities of Quhuo Investment Limited and all instruments relating to other transactions relating to the business of Quhuo Investment Limited are exempt from payment of stamp duty in the British Virgin Islands. This assumes that Quhuo Investment Limited does not hold an interest in real estate in the British Virgin Islands.

There are currently no withholding taxes or exchange control regulations in the British Virgin Islands applicable to Quhuo Investment Limited or its members.

Hong Kong

Our wholly-owned subsidiary in Hong Kong, Quhuo Technology Investment (Hong Kong) Limited, is subject to an income tax rate of 16.5% for taxable income earned in Hong Kong. No provision for Hong Kong profit tax has been levied as we did not have assessable income that was earned in or derived from our Hong Kong subsidiary for the years ended December 31, 2020, 2021 and 2022, respectively. Hong Kong does not impose a withholding tax on dividends.

PRC

Our WFOE, VIE and VIE's subsidiaries in China are subject to PRC enterprise income tax on their taxable income in accordance with the relevant PRC income tax laws. Pursuant to the EIT Law, which became effective on January 1, 2008, a uniform 25% enterprise income tax rate is generally applicable to both foreign-invested enterprises and domestic enterprises, except where a special preferential rate applies. The enterprise income tax is calculated based on the entity's global income as determined under PRC tax laws and accounting standards.

In 2020, Nantong Runda was qualified for the requirements of small and micro-sized enterprise, and its first one million yuan of annual taxable income was eligible for 75% reduction and the taxable income between one million yuan and three million yuan was eligible for 50% reduction. The applicable corporate income tax rate is 20%. In 2021, Nantong Runda did not qualify for the requirements of small and micro-sized enterprise, and the applicable CIT rate was 25%. In 2022, Nantong Runda was qualified for the requirements of small and micro-sized enterprise, and the first RMB1.0 million in its annual taxable income was eligible for 12.5% reduction and the taxable income between RMB1.0 million and RMB3.0 million was eligible for 50% reduction and the applicable corporate income tax rate was 20%. Hainan Quhuo, Hainan Xinying, Haikou Chengtu, Hainan Huiliu, and Haikou Chengjing are enterprises registered in the Hainan free trade port and engaged in substantial business in encouraged industries and are therefore entitled to preferential tax rate of 15%. In 2020, Beijing Quhuo was designated as a High Tech Enterprise and, therefore, has been eligible for a preferential tax rate of 15% from 2020 to 2023.

Our revenues derived from the provision of on-demand delivery services are subject to value-added taxes, or VAT, of 6%; our revenues derived from the provision of shared-bike maintenance services are subject to VAT of 6% and 9%; and our revenues derived from the rental fees under our ride-hailing services prior to April 1, 2019 were subject to VAT of 16%, and are subject to VAT of 13% since then, less any deductible VAT we have already paid or borne. They are also subject to surcharges on VAT payments in accordance with PRC law.

As a Cayman Islands holding company, we may receive dividends from our PRC subsidiary. The EIT Law and its implementing rules provide that dividends paid by a PRC entity to a nonresident enterprise for income tax purposes is subject to PRC withholding tax at a rate of 10%, subject to reduction by an applicable tax treaty with China. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income, the withholding tax rate in respect to the payment of dividends by a PRC enterprise to a Hong Kong enterprise may be reduced to 5% from a standard rate of 10% if the Hong Kong enterprise directly holds at least 25% of the PRC enterprise. Pursuant to the Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements, or SAT Circular 81, a Hong Kong resident enterprise must meet the following conditions, among others, in order to apply the reduced withholding tax rate: (1) it must be a company; (2) it must directly own the required percentage of equity interests and voting rights in the PRC resident enterprise; and (3) it must have directly owned such required percentage in the PRC resident enterprise throughout the 12 months prior to receiving the dividends. In October 2019, the State Administration of Taxation promulgated the Administrative Measures for Nonresident Taxpayers to Enjoy Treatment under Tax Treaties, or SAT Circular 35, which became effective on January 1, 2020. SAT Circular 35 provides that non-resident enterprises are not required to obtain preapproval from the relevant tax authority in order to enjoy the reduced withholding tax. Instead, nonresident enterprises and their withholding agents may, by self-assessment and on confirmation that the prescribed criteria to enjoy the tax treaty benefits are met, directly apply the reduced withholding tax rate, collect and retain relevant materials for review in accordance with these measures and accept the follow-up examination of tax authorities. Accordingly, we may be able to benefit from the 5% withholding tax rate for the dividends received from our PRC subsidiary if it satisfies the conditions prescribed under SAT Circular 81 and other relevant tax rules and regulations. However, according to SAT Circular 81 and SAT Circular 35, if the relevant tax authorities consider the transactions or arrangements that we have are for the primary purpose of enjoying a favorable tax treatment, the relevant tax authorities may adjust the favorable withholding tax in the future.

If our holding company in the Cayman Islands or any of our subsidiaries outside of China were deemed to be a “resident enterprise” under the EIT Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%, which could result in unfavorable tax consequences to us and our non-PRC shareholders. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or the ADSs holders.”

Results of Operations

The following table sets forth a summary of our consolidated results of operations for the years indicated. You should read this information together with our consolidated financial statements and related notes included elsewhere in this annual report. The results of operations in any period are not necessarily indicative of the results that may be expected for any future years or periods.

	Year Ended December 31,			
	2020	2021	2022	
	RMB	RMB	RMB	US\$
	(in thousands, except for share and per share data)			
Revenues	2,580,810	4,025,279	3,820,378	553,903
Cost of revenues	(2,388,299)	(3,849,682)	(3,567,690)	(517,266)
General and administrative expenses	(202,963)	(240,749)	(213,592)	(30,968)
Research and development expenses	(13,095)	(20,122)	(12,540)	(1,818)
Gain/(loss) on disposal of assets, net	3,243	(2,564)	13,975	2,026
Goodwill impairment	(336)	(51,971)	(4,882)	(708)
Total operating expenses	(213,151)	(315,406)	(217,039)	(31,468)
Operating (loss)/income	(20,640)	(139,809)	35,649	5,169
Interest income	824	644	690	100
Interest expense	(8,068)	(7,026)	(5,683)	(824)
Other income, net	49,218	(33,964)	(26,068)	(3,780)
Foreign exchange (loss)/gain	(1,510)	952	—	—
Income/(loss) before income tax	19,824	(179,203)	4,588	665
Income tax expense	(25,428)	(12,027)	(21,002)	(3,045)
Net loss	(5,604)	(191,230)	(16,414)	(2,380)
Net loss attributable to non-controlling interests	9,034	33,323	3,284	476
Net income/(loss) attributable to ordinary shareholders of Quhuo Limited	3,430	(157,907)	(13,130)	(1,904)
Non-GAAP Financial Data(1)				
Adjusted net income/(loss)	77,063	(122,298)	3,348	485
Adjusted EBITDA	130,565	(72,734)	58,640	8,501

(1) See “-Non-GAAP Financial Measures.”

Year Ended December 31, 2022 Compared to Year Ended December 31, 2021

Revenues

Our revenues decreased by 5.1% from RMB4,025.3 million in 2021 to RMB3,820.4 million (US\$553.9 million) in 2022, primarily due to the following reasons.

- Revenues from on-demand delivery solutions decreased by 5.0% from RMB3,829.0 million in 2021 to RMB3,638.7 million (US\$527.6 million) in 2022, primarily due to the decrease in the number of delivery orders resulting from regional resurgence of COVID-19 in multiple localities in 2022. The geographical coverage of our on-demand delivery solutions decreased from 1,273 delivery areas as of December 31, 2021 to 1,118 delivery areas as of December 31, 2022.
- Revenues from mobility service solutions decreased by 1.9% from RMB110.2 million in 2021 to RMB108.1 million (US\$15.7 million) in 2022, primarily due to the reduced customer demand resulting from regional resurgence of COVID-19 in multiple localities in 2022.

- Revenues from housekeeping and accommodation solutions and other services decreased by 14.6% from RMB86.2 million in 2021 to RMB73.6 million (US\$10.7 million) in 2022, primarily due to the reduced customer demand resulting from regional resurgence of COVID-19 in multiple localities in 2022.

Cost of revenues

Our cost of revenues decreased by 7.3% from RMB3,849.7 million in 2021 to RMB3,567.7 million (US\$517.3 million) in 2022, primarily due to the following reasons.

- Service fees paid to workers and team leaders decreased by 7.7% from RMB3,452.9 million in 2021 to RMB3,187.6 million (US\$462.2 million) in 2022, generally in line with the decrease in the number of delivery orders resulting from regional resurgence of COVID-19 in multiple localities in 2022.
- Hiring expenses increased by 7.4% from RMB127.6 million in 2021 to RMB137.1 million (US\$19.9 million) in 2022, primarily relating to our enhanced efforts to maintain the workforce scale on our platform.
- Insurance expenses decreased by 18.0% from RMB108.1 million in 2021 to RMB88.7 million (US\$12.9 million) in 2022, primarily due to the decrease in the number of traffic accidents involving workers on our platform.
- Office and equipment expenses decreased by 5.6% from RMB93.5 million in 2021 to RMB88.3 million (US\$12.8 million) in 2022, primarily due to our procurement of bicycle transportation equipment in 2021 and the decrease in such procurement in 2022.
- Freight service costs increased significantly from RMB10.4 million in 2021 to RMB27.3 million (US\$4.0 million) in 2022, primarily due to the increase in the business volume of our freight service solutions, which we launched in July 2021.
- Car rental and maintenance expenses decreased by 42.6% from RMB17.7 million in 2021 to RMB10.2 million (US\$1.5 million) in 2022, primarily due to the decrease in the number of rented vehicles.
- Platform commissions decreased by 82.0% from RMB7.9 million in 2021 to RMB1.4 million (US\$0.2 million) in 2022, primarily due to the decrease in commissions paid to aggregation platforms for web traffic resulting from the reduced customer demand amid the regional resurgence of COVID-19 in multiple localities in 2022.

Operating expenses

General and administrative expenses

Our general and administrative expenses decreased by 11.3% from RMB240.7 million in 2021 to RMB213.6 million (US\$31.0 million) in 2022, primarily due to (1) the decrease in share-based compensation in relation to our share incentive plan from RMB68.9 million in 2021 to RMB19.8 million (US\$2.9 million) in 2022, and (2) a decrease in impairment losses from RMB8.5 million in 2021 to RMB2.5 million (US\$0.4 million) in 2022, and (3) a slight decrease in staff costs from RMB66.8 million in 2021 to RMB66.0 million (US\$9.6 million) in 2022, partially offset by an increase in professional service fees and other expenditures, including office rent expenses, welfare and business development expenses, from RMB96.5 million in 2021 to RMB125.2 million (US\$18.2 million) in 2022, in connection with our business expansion plan.

Research and Development Expenses

Our research and development expenses decreased by 37.7% from RMB20.1 million in 2021 to RMB12.5 million (US\$1.8 million) in 2022, primarily due to the decreases in the headcount and average compensation level for our research and development personnel from RMB16.3 million in 2021 to RMB6.7 million (US\$1.0 million) in 2022 as we restructured our R&D team.

Gain/(Loss) on disposal of assets, net

We recorded loss on disposal of assets of RMB2.6 million in 2021 and gain on disposal of assets, net, of RMB14.0 million (US\$2.0 million) in 2022, in relation to the transfer of certain customer relationships related to our on-demand delivery solutions to third parties.

Goodwill impairment

We recorded goodwill impairment of RMB52.0 million in 2021, as compared to RMB4.9 million (US\$0.7 million) in 2022. Our goodwill impairment in 2021 was related to the business we acquired for our housekeeping solutions and was primarily due to the impact of the COVID-19 pandemic, which delayed the business integration progress and impacted the business growth rate. Our goodwill impairment in 2022 was related to the reduced service scope of our shared-bike maintenance solutions.

Operating (loss)/income

As a result of the foregoing, we recorded operating loss of RMB139.8 million in 2021 and operating income of RMB35.6million (US\$5.2 million) in 2022.

Interest income

Our interest income remained relatively stable at RMB0.6 million in 2021 and RMB0.7 million (US\$0.1 million) in 2022.

Interest expense

Our interest expense decreased by 19.1% from RMB7.0 million in 2021 to RMB5.7 million (US\$0.8 million) in 2022, primarily due to the decrease in our short-term bank borrowings.

Other income/(loss), net

We recorded other loss, net of RMB34.0 million and RMB26.1 million (US\$3.8 million) in 2021 and 2022, respectively, primarily in relation to the decrease in fair value change of our investment in a mutual fund from RMB52.9 million in 2021 to RMB49.7 million (US\$7.2 million) in 2022.

Foreign exchange (loss)/gain

We recorded a foreign exchange gain of RMB1.0 million in 2021 and did not incur loss or gain in relation to foreign exchange in 2022.

Income tax expense

Our income tax expense increased by 74.6% from RMB12.0 million in 2021 to RMB21.0 million (US\$3.0 million) in 2022, primarily due to the increase in our taxable income.

Net loss

As a result of the foregoing, we had net loss of RMB191.2 million and RMB16.4 million (US\$2.4 million) in 2021 and 2022, respectively.

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Revenues

Our revenues increased by 56.0% from RMB2,580.8 million in 2020 to RMB4,025.3 million in 2021, primarily due to the rapid growth of our major business lines.

- Revenues from on-demand delivery solutions increased by 50.9% from RMB2,536.8 million in 2020 to RMB3,829.0 million in 2021, primarily due to the increase in the number of delivery orders we fulfilled as a result of industry growth and our continued penetration and expansion into new geographical markets. The geographical coverage of our on-demand delivery solutions increased from 1,076 delivery areas as of December 31, 2020 to 1,273 delivery areas as of December 31, 2021.
- Revenues from mobility service solutions increased significantly from RMB31.6 million in 2020 to RMB110.2 million in 2021, primarily due to (1) the enlarged customer base and service scope of shared-bike maintenance solutions and (2) the commencement of freight service solutions in July 2021.
- Revenues from housekeeping and accommodation solutions and other services increased significantly from RMB12.4 million in 2020 to RMB86.1 million in 2021, primarily due to (1) the enlarged customer base of our housekeeping solutions and the inclusion into our solution offering of hotels and B&Bs following our acquisition of Lailai and Chengtu Home, and (2) our continuous efforts to tap into other industries to explore diversified services and solutions.

Cost of revenues

Our cost of revenues increased by 61.2% from RMB2,388.3 million in 2020 to RMB3,849.7 million in 2021, primarily due to the following reasons.

- Service fees paid to workers and team leaders increased by 58.6% from RMB2,177.4 million in 2020 to RMB3,452.9 million in 2021, primarily due to the increase in the orders under various solutions fulfilled by workers on our platform.
- Hiring expenses increased significantly from RMB60.7 million in 2020 to RMB127.6 million in 2021, primarily due to the workforce expansion on our platform.
- Insurance expenses increased by 66.0% from RMB65.1 million in 2020 to RMB108.1 million in 2021, primarily due to the workforce expansion on our platform.
- Office and equipment expenses increased by 70.9% from RMB54.7 million in 2020 to RMB93.5 million in 2021, primarily because we sourced additional resources in anticipation of increased demand of our solutions.

Operating expenses

General and administrative expenses

Our general and administrative expenses increased by 18.6% from RMB203.0 million in 2020 to RMB240.7 million in 2021, primarily due to (1) an increase in staff costs from RMB52.7 million in 2020 to RMB66.8 million in 2021, which was in line with rapid growth of our solutions, (2) an increase in professional service fees and other expenditures, including office rent expenses, welfare and business development expenses, from RMB66.3 million in 2020 to RMB96.5 million in 2021, which was in connection with our business expansion plan, and (3) an increase in impairment losses from RMB3.3 million in 2020 to RMB8.5 million in 2021 in relation to Lailai due to the impact of the COVID-19 pandemic, partially offset by a decrease in share-based compensation from RMB80.7 million in 2020 to RMB68.9 million in 2021, as we satisfied the performance conditions of our share incentive awards upon the completion of our initial public offering in 2020 and incurred substantial share-based compensation expenses from those awards.

Research and Development Expenses

Our research and development expenses increased by 53.7% from RMB13.1 million in 2020 to RMB20.1 million in 2021, primarily due to an increase in staff costs from RMB11.2 million in 2020 to RMB16.3 million in 2021 as a result of the increase in the headcount of our research and development personnel.

(Loss)/gains on disposal of assets, net

We recorded gains on disposal of assets, net of RMB3.2 million in 2020 and loss on disposal of assets of RMB2.6 million in 2021, in relation to transfer of customer relationships in certain delivery areas of, and transfer of smart food cabinets used in, our on-demand delivery solutions to third parties.

Goodwill impairment

We recorded goodwill impairment of RMB52.0 million in 2021, as compared to RMB0.3 million in 2020. Our goodwill impairment in 2021 was related to the business we acquired for our housekeeping solutions and was primarily due to the impact of the COVID-19 pandemic, which delayed the business integration progress and impacted the business growth rate.

Operating loss

As a result of the foregoing, our operating loss increased significantly from RMB20.6 million in 2020 to RMB139.8 million in 2021.

Interest income

Our interest income decreased by 21.8% from RMB0.8 million in 2020 to RMB0.6 million in 2021, primarily due to a decrease in our bank deposits.

Interest expense

Our interest expense decreased by 12.9% from RMB8.1 million in 2020 to RMB7.0 million in 2021, primarily because we incurred less short-term bank borrowings.

Other income/(loss), net

We recorded other loss, net of RMB34.0 million in 2021, as compared to other income, net of RMB49.2 million in 2020, primarily because we recorded fair value losses of RMB52.9 in 2021 as a result of the fluctuation in the fair value of our investment in a mutual fund.

Foreign exchange (loss)/gain

We recorded a foreign exchange loss of RMB1.5 million in 2020 and a foreign exchange gain of RMB1.0 million in 2021.

Income tax expense

Our income tax expense decreased by 52.7% from RMB25.4 million in 2020 to RMB12.0 million in 2021, primarily due to the decrease in the taxable income generated from on-demand food delivery solutions.

Net loss

As a result of the foregoing, we had net loss of RMB5.6 million and RMB191.2 million in 2020 and 2021, respectively.

B. Liquidity and Capital Resources

Liquidity and Capital Resources

Our principal sources of liquidity have been cash generated from our operations and external financing.

As of December 31, 2021 and 2022, we had RMB28.6 million and RMB95.4 million (US\$13.8 million), respectively, in cash. Our cash consists primarily of cash and demand deposits. We believe that our current cash and cash equivalents, time deposits and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs from operations and other commitments for at least the next 12 months from the date of the issuance of the consolidated financial statements.

We intend to finance our future working capital requirements and capital expenditures from cash generated from operating activities and financing activities, including the net proceeds we received from our initial public offering. We may, however, require additional cash resources due to changing business conditions or other future developments, including acquisitions or investments we may decide to selectively pursue. If our existing cash resources are insufficient to meet our requirements, we may seek to issue equity or debt securities or obtain credit facilities. The issue of additional equity securities, including convertible debt securities, would result in further dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could result in operating covenants that would restrict our operations. We cannot assure you that financing will be available in the amounts we need or on terms acceptable to us, if at all. If we are unable to obtain additional equity or debt financing as required, our business operations and prospects may suffer.

As of the date of this annual report, we have withdrawn substantially all of our deposits with SVB.

The following table sets forth a summary of our cash flows for the years indicated.

	For the year ended December 31,			
	2020	2021	2022	
	RMB	RMB	RMB	US\$
		(in thousands)		
Net cash generated from/(used in) operating activities	11,110	(30,893)	74,723	10,833
Net cash (used in)/generated from investing activities	(187,083)	(110,413)	77,211	11,196
Net cash generated/(used in) from financing activities	153,093	68,673	(82,140)	(11,909)
Effect of exchange rate changes on cash and restricted cash	(144)	(214)	321	46
Net (decrease)/increase in cash and restricted cash	(23,024)	(72,847)	70,115	10,166
Cash and restricted cash at beginning of the year	126,779	103,755	30,908	4,481
Cash and restricted cash at end of the year	103,755	30,908	101,023	14,647

Operating activities

Net cash generated from operating activities was RMB74.7 million (US\$10.8 million) in 2022, primarily due to a net loss of RMB16.4 million (US\$2.4 million), adjusted for (1) certain non-cash items, mainly including change in fair value of short-term investment of RMB41.8 million (US\$6.1 million), amortization of RMB21.1 million (US\$3.1 million) and share-based compensation of RMB19.8 million (US\$2.9 million), and (2) changes in certain working capital items that positively impact the cash flow from operating activities, mainly including an increase in other non-current liabilities of RMB16.2 million (US\$2.3 million), a decrease in prepayments and other current assets of RMB5.9 million (US\$0.9 million) and an increase in income taxes payable of RMB5.8 million (US\$0.8 million), partially offset by (3) changes in certain working capital items that negatively impact the cash flow from operating activities, mainly including a decrease in accounts payable of RMB40.8 million (US\$5.9 million), an increase in other non-current assets of RMB20.3 million (US\$2.9 million) and an increase in accounts receivable of RMB13.1 million (US\$1.9 million).

Net cash used in operating activities was RMB30.9 million in 2021, primarily due to a net loss of RMB191.2 million, adjusted for (1) certain non-cash items, mainly including share-based compensation of RMB68.9 million, changes in fair value of short-term investment of RMB52.9 million, goodwill impairment of RMB52.0 million, and amortization of RMB25.3 million, and (2) changes in certain working capital items that positively impact the cash flow from operating activities, mainly including an increase of RMB65.1 million in accounts payable and an increase of RMB31.8 million in accrued expenses and other current liabilities, partially offset by (3) changes in certain working capital items that negatively impact the cash flow from operating activities, mainly including an increase of RMB134.2 million in accounts receivable and an increase of RMB22.6 million in other non-current assets.

Net cash generated from operating activities was RMB11.1 million in 2020, primarily due to a net loss of RMB5.6 million, adjusted for (1) certain non-cash items, mainly including share-based compensation of RMB82.7 million, changes in fair value of short-term investment of RMB35.5 million and amortization of RMB13.7 million, and (2) changes in certain working capital items that positively impact the cash flow from operating activities, mainly including an increase of RMB31.8 million in accounts payable, an increase of RMB17.6 million in other non-current liabilities, and a decrease of RMB18.4 million in amounts due from related parties, partially offset by (3) changes in certain working capital items that negatively impact the cash flow from operating activities, mainly including an increase of RMB97.2 million in accounts receivable, an increase of RMB8.2 million in prepayments and other current assets, and an increase of RMB6.6 million in other non-current assets.

Investing activities

Net cash generated from investing activities was RMB77.2 million (US\$11.2 million) in 2022, which was primarily attributable to (1) proceeds from sales of short-term investments of RMB1,616.7 million (US\$234.4 million) and (2) proceeds from disposals of intangible assets of RMB20.8 million (US\$3.0 million) and other investing, partially offset by (1) purchase of short-term investments of RMB1,549.7 million (US\$224.7 million), (2) acquisitions of intangible assets of RMB8.1 million (US\$1.2 million) and (3) acquisition of business, net of cash acquired of RMB5.0 million (US\$0.7 million).

Net cash used in investing activities was RMB110.4 million in 2021, which was primarily attributable to (1) purchase of short-term investments of RMB3,609.2 million, (2) acquisitions of intangible assets of RMB71.4 million, (3) other investing activities of RMB11.8 million, and (4) purchase of property and equipment of RMB9.3 million, partially offset by (1) proceeds from sales of short-term investments of RMB3,035.9 million and (2) proceeds from disposals of intangible assets of RMB18.9 million.

Net cash used in investing activities was RMB187.1 million in 2020, which was primarily attributable to (1) purchase of short-term investments of RMB3,409.5 million, (2) acquisitions of intangible assets of RMB59.0 million, and (3) acquisition of businesses, net of cash acquired of RMB27.5 million, partially offset by (1) proceeds from sales of short-term investments of RMB3,299.8 million, and (2) proceeds from disposals of intangible assets of RMB14.8 million.

Financing activities

Net cash used in financing activities was RMB82.1 million (US\$11.9 million) in 2022, which was primarily attributable to (1) repayments of short-term debt of RMB552.5 million (US\$80.1 million) and (2) repayments of long-term debt of RMB3.1 million (US\$0.5 million), partially offset by proceeds from short-term debt of RMB473.5 million (US\$68.6 million).

Net cash generated from financing activities was RMB68.7 million in 2021, which was primarily attributable to proceeds from short-term debt of RMB213.5 million, partially offset by (1) repayments of short-term debt of RMB136.0 million and (2) repayments of long-term debt of RMB8.8 million.

Net cash generated from financing activities was RMB153.1 million in 2020, which was primarily attributable to (1) proceeds from initial public offering of RMB244.2 million, and (2) proceeds from short-term debt of RMB151.0 million, partially offset by (1) repayments of short-term debt of RMB222.6 million, (2) payments of deferred IPO costs of RMB11.0 million, and (3) repayments of long-term debt of RMB8.6 million.

Material Cash Requirements

Our material cash requirements as of December 31, 2022 and any subsequent interim period primarily include working capital needs, capital expenditures, operating lease obligations, and long-term and short-term debt.

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Our capital expenditures were RMB3.4 million, RMB9.3 million and RMB4.7 million (US\$0.7 million) in 2020, 2021 and 2022, respectively. Our capital expenditures were primarily used for the purchase of property and equipment, such as vehicles in connection with our ride-hailing solutions and electronic equipment. We will continue to make capital expenditures to meet the expected growth of our business.

The following table sets forth the details of our material cash requirements (other than capital expenditure) as of December 31, 2022.

	Payment due by		
	Total	Less than one year (RMB in thousands)	one – three years
Operating lease commitments	4,379	3,276	1,103
Long-term debt	1,737	434	1,303
Short-term loans	65,000	65,000	—

Other than as shown above, we did not have any material capital and other commitments, long-term obligations, guarantees or other reasonably likely material cash requirements (even if not contractual and not recognized as liabilities) as of December 31, 2022.

Off-Balance Sheet Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or product development services with us.

C. Research and Development, Patents and Licenses, etc.

See “Item 4. Information on the Company—B. Business Overview—Technology” and “Item 4. Information on the Company—B. Business Overview—Intellectual Property.”

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the 2022 that are reasonably likely to have a material adverse effect on our net revenue, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial condition.

E. Critical Accounting Policies and Estimate

We prepare our financial statements in accordance with U.S. GAAP, which requires our management to make judgment, estimates and assumptions. We continually evaluate these judgment, estimates and assumptions based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and various assumptions that we believe to be reasonable, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors that should be considered when reviewing our financial statements. We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements. You should read the following description of critical accounting policies, judgments and estimates in conjunction with our consolidated financial statements and other disclosures included in this annual report.

Revenue recognition

On-demand delivery solutions

We enter into delivery service agreements to provide industry customers with our on-demand delivery solutions. Industry customers divide their intra-city delivery network into a number of delivery areas. We are responsible for fulfilling all on-demand delivery orders on a daily and an if-needed basis within specified delivery areas that are managed by us. We manage our delivery rider groups to ensure there are sufficient delivery riders to fulfill all the orders within each delivery area and assure that the delivery service quality is in compliance with the industry customers' service standards.

We have concluded that we have stand ready obligation to fulfill all the delivery orders and considered the series of services as a single performance obligation. The customers receive the benefit of the services and we on the term of a month-to-month contract has the right to payment as the service are performed. We charge delivery service fees to industry customers based on the number of orders completed at a fixed rate per order, subject to adjustments based on the monthly performance against key performance indicators set by each customer. Revenues are variable based on the volume of delivery orders and monthly performance results. We recognize revenues when the variable consideration becomes fixed at the end of the month when the uncertainty on monthly performance evaluation is resolved.

Mobility solutions

Our mobility service solutions comprise shared-bike maintenance solutions, ride-hailing solutions and freight service solutions.

Bike-sharing maintenance solutions

We derive revenue from service fees paid by the bike-sharing company for daily maintenance services we provided. Our shared-bike maintenance solutions include maintaining of orderliness of bikes, redistribution and transportation of idled bikes based on end users' usage patterns within a designated area, and identification and transportation of malfunctioning bikes.

Our obligation is performing maintenance services on the term of a month-to-month contract and considered the series of services as a single performance obligation. The customer receives the benefit of the services, and we have the right to payment as the service are performed. We charge maintenance service fees to the bike-sharing company based on the number of service hours and the number of shared-bikes transported. Revenues are variable based on volume of service performed and we recognize revenues as the services are rendered.

Ride-hailing solutions

We generate revenue from ride-hailing solutions primarily from car rental fees paid by drivers on our platform according to our car leasing agreements with them. These arrangements are classified as operating leases as defined within ASC 840, *Leases*. We recognize revenues from such arrangements on a straight-line basis over the lease term.

To a lesser extent, we also generate revenues from provision of ride-hailing driver management services to certain ride-hailing platforms as an agent and recognize such revenues on a net basis.

Freight service solutions

We commenced our freight service solutions in July 2021, under which we fulfill end-to-end intra-city and long-distance transportation orders by deploying truck fleets to serve each industry customers and pay service fees to such trucker fleets.

Housekeeping solutions and other services

We generate revenue from housekeeping solutions for hotels and other services, primarily including maintenance services for short-term rental properties. We charge monthly service fees to industry customers based on the service hours and/or the number of fulfilled orders, as adjusted based on KPI performance. Revenues are variable based on services we performed, and we recognize revenues as the services are rendered.

Income taxes

We follow the liability method of accounting for income taxes in accordance with ASC 740, *Income Taxes*, or ASC 740. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. We record a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rate is recognized in tax expense in the period that includes the enactment date of the change in tax rate.

We accounted for uncertainties in income taxes in accordance with ASC 740. Interest and penalties arising from underpayment of income taxes shall be computed in accordance with the related PRC tax law. The amount of interest expense is computed by applying the applicable statutory rate of interest to the difference between the tax position recognized and the amount previously taken or expected to be taken in a tax return. Interest and penalties recognized in accordance with ASC 740 are classified in the consolidated statements of comprehensive loss as income tax expense.

In accordance with ASC 740, we recognize in our consolidated financial statements the impact of a tax position if a tax return position or future tax position is “more likely than not” to prevail based on the facts and technical merits of the position. Tax positions that meet the “more likely than not” recognition threshold are measured at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement.

Share-based compensation

We apply ASC 718, Compensation-Stock Compensation (“ASC 718”) to account for our employee share-based payments. In accordance with ASC 718, we determine whether an award should be classified and accounted for as a liability award or equity award. All of our share-based awards to employees were classified as equity awards and are recognized in the consolidated financial statements based on their grant date fair values. We early adopted ASU No. 2018-7, *Compensation—Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting* on January 1, 2017. Share-based awards to non-employees were classified as equity awards and are recognized in the consolidated financial statements based on their grant date fair value. We have elected to recognize share-based compensation using the accelerated method, for all share-based awards granted with graded vesting based on service conditions.

In determining the value of share options granted to employees and non-employees, we have used the binomial option pricing model, with assistance from an independent third-party valuation firm. Under this option pricing model, certain assumptions, including the risk-free interest rate, the expected volatility, the suboptimal exercise factor, the fair value per ordinary share, the expected dividend yield and the post-vesting forfeiture rate are required in order to determine the fair value of our options. The fair value of share options was estimated on the date of grant using the following key assumptions.

	For the year ended December 31,			
	2020		2021	
Risk-free interest rate	0.55%-1.92 %		1.61 %	
Expected volatility	32.54%-33.58 %		33 %	
Suboptimal exercise factor	2.5		2.5	
Fair value per ordinary share	US\$	6.29 - 8.53	US\$	4.86
Expected dividend yield	0 %		0 %	
Post-vesting forfeiture rate	0 %		0 %	

A change in the terms or conditions of the awards is accounted for as a modification of the award. Incremental compensation cost is measured as the excess, if any, of the fair value of the modified award over the fair value of the original award immediately before its terms are modified, measured based on the fair value of the awards and other pertinent factors at the modification date. For vested awards, we recognize incremental compensation cost in the period the modification occurs. For unvested awards, we recognize over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date. If the fair value of the modified award is lower than the fair value of the original award immediately before modification, the minimum compensation cost we recognize is the cost of the original award.

Goodwill impairment

In accordance with ASC 350, Intangibles-Goodwill and Others (“ASC 350”), we assign and assess goodwill for impairment at the reporting unit level. A reporting unit is an operating segment or one level below the operating segment. Goodwill was allocated to the reporting units that are expected to benefit from the business combinations.

Under ASC 350, goodwill is not amortized but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that it might be impaired. We early adopted ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (“ASU 2017-04”), pursuant to which we will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a goodwill allocated to the reporting unit’s carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. We assess qualitative factors such as business changes, economic outlook, financial trends and forecast, growth rates, industry data and other relevant qualitative factors to determine if it’s more-likely-than-not that the goodwill might be impaired and whether it’s necessary to perform a quantitative goodwill impairment. If the qualitative factors indicate a potential impairment, we compare the carrying amount of a reporting unit to its fair value, which is based on a discounted future cash flow approach.

In addition, we have further analyzed and concluded that the difference between the total fair value of our reporting units and our market capitalization is attributable to the control premiums that are not reflected in our quoted market price, in addition to the distressed market caused by the strict COVID-19 policy in China and the increased regulatory pressures that we faced in overseas capital markets consistent with declines experienced by our peer companies.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A Directors and Senior Management

The following table sets forth information regarding our directors and senior management as of the date of this annual report.

Directors and Executive Officers	Age	Position/Title
Leslie Yu	47	Chairman of the Board of Directors, Director and Chief Executive Officer
Zhen Ba	43	Director, Vice President and Chief Financial Officer
Gang Wang	48	Director and Chief Operating Officer
Chenxi Zhao	34	Director
Wenying Lyu	35	Director
Fan Pan	45	Chief Technology Officer
Jingchuan Li	49	Independent Director
Jing Zhou	48	Independent Director
Jie Jiao	42	Independent Director

Leslie Yu is our founder and has served as chairman of our board of directors since June 2019 and our chief executive officer since the inception of Beijing Quhuo Technology Co., Ltd. in March 2012. Prior to founding our company, Mr. Yu served as general manager of Shanghai Origin Myway International Logistics Co., Ltd. from September 2010 to March 2012. Prior to that, Mr. Yu was a senior business manager at DHL Supply Chain (China) Co., Ltd., the third-party logistics unit of Deutsche Post DHL Group (DAX: DPW), from August 2005 to August 2010. Mr. Yu served as an operating manager at New Times International Transport Service Co., Ltd., a freight forwarding company based in Beijing, from January 2004 to July 2005. Mr. Yu started his career at United Biscuits (China) Co., Ltd. and served as a sales planning supervisor from August 1996 to July 1999. Mr. Yu received his bachelor's degree in international economic law from Renmin University of China in 1996, and his master's degree in business administration from Auckland Institute of Studies in 2002.

Zhen Ba is our co-founder and has served as our director since June 2019, our vice president in charge of business development since the inception of Beijing Quhuo Technology Co., Ltd. in March 2012. Mr. Ba served as the director of sales for the region of North China at LF Logistics from 2010 to 2012 and our chief financial officer since July 2022. Mr. Ba was a project manager at DHL Supply Chain (China) Co., Ltd. from January 2005 to August 2010. Mr. Ba received his bachelor's degree in English from China Foreign Affairs University (formerly known as Foreign Affairs College) in 2002 and his master's degree in management from Lancaster University in 2003.

Gang Wang has served as our chief operating officer since September 2014 and our director since July 2022. He also served as our director from August 2019 to July 2020. Prior to joining us, Mr. Wang served as the head of supply chain at Kidsland (China) Trading Co., Ltd., a subsidiary of Kidsland International Holdings Limited (HKEX: 2122) from March 2011 to March 2014. Mr. Wang was a site operation manager at DHL Supply Chain (China) Co., Ltd. from May 2006 to March 2011. Mr. Wang received his bachelor's degree from Wuhan University of Technology in 1996 and his master's degree in business administration from Capital University of Economics and Business in 2011.

Chenxi Zhao has served as our director since August 2019. Ms. Zhao is also the partner of SB China Venture Capital since October 2018. Ms. Zhao has served various positions at SB China Venture Capital, including investment director, executive director and partner, since December 2014. She served as the investment director of iStart, an early-stage venture capital fund, from April 2012 to August 2014. Ms. Zhao also served as the investment manager of Shanghai Zhong Lu Group Co., Ltd. from June 2010 to March 2012. Ms. Zhao received her bachelor's degree in accounting from Shanghai University of Finance and Economics in 2009 and her master's degree in accounting from University of Southern California Marshall Business School in 2010.

Wenying Lyu has served as our director since September 2022. Ms. Lyu is also the Head of the Strategic Investment Management Department of Baidu since October 2019. Ms. Lyu had extensive work experience in investment banking, and served as Manager of Investment Banking at China International Capital Corporation Limited from July 2010 to July 2013 and as Executive Director of Investment Banking Department at Goldman Sachs Gao Hua Securities Company Limited from July 2015 to October 2019. Ms. Lyu received her bachelor's degree in 2010 from the University of Virginia and an MBA degree from the Wharton School of the University of Pennsylvania in 2015.

Fan Pan has served as our chief technology officer since May 2015. Prior to joining us, Mr. Pan co-founded and served as the chief technology officer at Beijing Gaotu Information Technology Co., Ltd. from May 2012 to December 2014. Mr. Pan also co-founded Visual China Group Co., Ltd. (SZSE: 0681) and held various positions, including the chief technology officer and the general manager of the e-commerce department, from November 2000 until October 2011. Prior to that, Mr. Pan founded and worked at Beijing CCIDnet Information Technology Co., Ltd. from April 1999 to June 2001. Mr. Pan received his college degree from Beijing College of Finance and Commerce in 1996.

Jingchuan Li has served as our independent director since July 2020. Mr. Li has served as a senior partner at Tahota Law Firm since July 2016. Prior to that, Mr. Li worked at Beijing Zhongrui Law Firm initially as an associate and then as a partner from March 2004 to July 2016. Prior to joining Beijing Zhongrui Law Firm, Mr. Li served as an associate at King & Wood Mallesons from February 2003 to March 2004. Mr. Li was an associate at Huamao & Guigu Law Firm from September 2000 to February 2003. Mr. Li received his bachelor's degree in law from Renmin University of China in 1996 and his master's degree in civil and commercial law from Tsinghua University in 2003.

Jing Zhou has served as our independent director since July 2020. Ms. Zhou has served as a partner at Hammer Capital since September 2017. Prior to that, Ms. Zhou served as the chief finance officer of ChangYou.com Limited (Nasdaq: CYOU) from January 2015 to August 2017. Ms. Zhou was the general counsel at Sohu.com Inc. (Nasdaq: SOHU) from August 2003 to December 2014. Ms. Zhou received her bachelor's degree in law from Renmin University of China in 1996, her master's degree in law from The University of Sydney in 2000 and her EBMA degree from Tsinghua University and INSEAD (European Institute of Business Administration) in 2015.

Jie Jiao has served as our independent director since July 2020. Ms. Jiao has served as the chief financial officer of Play For Dream Inc. since June 2019. She has also served as an independent non-executive director of China Sunshine Paper Holdings Company Limited (HKEX: 2002) since January 2014, TradeGo FinTech Limited (HKEX: 8017) since September 2018 and independent non-executive director of MOG Holdings Limited (HKEX: 1942), and served as an independent director at China Index Holdings Limited (Nasdaq: CIH) from June 2019 to May 2022. Ms. Jiao served as the chief financial officer at iClick Interactive Asia Group Limited (Nasdaq: ICLK) from June 2014 to December 2018. Prior to joining iClick, Ms. Jiao served as the vice president at ArtGo Holdings Limited (HKEX: 3313) from March 2012 to May 2014. Ms. Jiao served as the general counsel and head of the investor relationship department at Fang Holdings Limited (NYSE: SFUN) from January 2010 to February 2012. Ms. Jiao also served as the board secretary of China Sunshine Paper Holdings Company Limited (HKEX: 2002) from April 2007 to March 2010. Ms. Jiao received her bachelor's degree in law and economics from Peking University in 2003, and her master's degree in law from Oxford University in 2005. Ms. Jiao is a Chartered Financial Analyst and obtained her PRC Legal Profession Qualification Certificate in 2010.

The business address of our directors and executive officers is: 3rd Floor, Block A, Tonghui Building, No. 1132 Huihe South Street, Chaoyang District, Beijing, People's Republic of China. No family relationship exists between any of our directors and executive officers.

B. Compensation

Compensation of Directors and Executive Officers

In 2022, the aggregate cash compensation to directors and executive officers was approximately RMB4.5 million (US\$0.7 million). This amount consisted only of cash and did not include any share-based compensation or benefits in kind. Each of our directors and officers is entitled to reimbursement for all necessary and reasonable expenses properly incurred in the course of employment or service. Our directors and officers participate in our share incentive plan. See “—Share Incentive Plan.” We do not pay or set aside any amounts for pension, retirement or other benefits for our directors and officers, except our contributions on behalf of our officers located in China to a government-mandated multi-employer defined contribution plan.

Share Incentive Plan

In August 2019, our board of directors approved our 2019 Share Incentive Plan, or the 2019 Plan, replacing the 2017 share incentive plan adopted by our affiliated company, to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of our business. Under the 2019 Plan, the maximum aggregate number of shares which may be issued pursuant to all awards under the 2019 Plan shall be 9,502,550 ordinary shares, which constitutes 19.55% of the total outstanding shares of our company on an as-converted basis as of the date of adoption of the 2019 Plan. We assumed all the options granted by our affiliated company prior to the adoption of the 2019 Plan. As of the date of this annual report, 7,857,974 options have been granted, excluding, if any, awards that were forfeited or canceled after the relevant grant dates and awards that have been vested.

The following paragraphs describe the principal terms of the 2019 Plan:

Types of awards. The 2019 Plan permits the awards of options, restricted shares, restricted share unit or any other type of awards that the committee decides.

Plan administration. Our board of directors or a committee of one or more members of the board will administer the 2019 Plan. The committee or the full board of directors, as applicable, will determine the participants to receive awards, the type and number of awards to be granted to each participant, and the terms and conditions of each award grant.

Award agreement. Awards granted under the 2019 Plan are evidenced by an award agreement that sets forth terms, conditions and limitations for each award, which may include the term of the award, the provisions applicable in the event of the grantee's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award.

Eligibility. We may grant awards to our employees, directors and consultants of our company, subsidiaries, parent company or related entities. However, we may grant options that are intended to qualify as incentive share options only to our employees and employees of our parent companies and subsidiaries.

Vesting schedule. In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

Restricted shares. Restricted shares are subject to such restrictions on transferability and other restrictions as the committee may impose.

Exercise of options. The plan administrator determines the exercise price for each award, which is stated in the award agreement. The vested portion of option will expire if not exercised prior to the time as the plan administrator determines at the time of its grant. However, the maximum exercisable term is 10 years from the date of a grant.

Transfer restrictions. Awards may not be transferred in any manner by the recipient except under limited circumstances, including by will or the laws of descent and distribution, unless otherwise provided by the plan administrator.

Termination and amendment. Unless terminated earlier, the 2019 Plan has a term of 10 years. Our board of directors has the authority to amend or terminate the plan. However, no such action may adversely affect in any material way any awards previously granted unless agreed by the recipient.

The following table sets forth information on restricted shares that we have awarded or have agreed to award as of April 10, 2023 pursuant to the 2019 Plan.

	Number of Class A Shares Ordinary underlying the awards awarded	Grant Date
Directors and Executive Officers		
Leslie Yu	1,458,192	January 1, 2019
Zhen Ba	—	
Gang Wang	1,135,883	September 20, 2017, August 23, 2019 and April 19, 2021
Chenxi Zhao	—	—
Wenying Lyu	—	—
Fan Pan	*	September 20, 2017 and August 23, 2019
Jingchuan Li	—	—
Jing Zhou	—	—
Jie Jiao	—	—
Total	7,857,974	

* Less than 1% of our total outstanding shares on an as-converted basis.

Equity Incentive Trust

Quhuo Trust was established under the trust deed, dated August 23, 2019, between us, The Core Trust Company Limited, or Core Trust, as trustee and Quhuo Holding (BVI) Limited, as nominees. Through Quhuo Trust, our ordinary shares and other rights and interests under awards granted pursuant to the 2019 Plan may be provided to certain of recipients of equity awards. As of the date of this annual report, the participants in the Quhuo Trust include our employees, directors, consultants and certain of our executive officers.

Participants in the Quhuo Trust transfer their equity awards to Core Trust to be held for their benefit. Upon satisfaction of vesting conditions and request by grant recipients, Core Trust will exercise the equity awards and transfer the relevant ordinary shares and other rights and interest under the equity awards to the relevant grant recipients with the consent of the trust administrator. Each of the trust deeds provides that Core Trust shall not, and shall have no right to, exercise the voting rights attached to such ordinary shares unless otherwise directed by the trust administrator, which is the board of directors, its authorized committee or an authorized representative of our company.

To the extent permitted under the Plan and applicable law and regulations, the trustee shall follow the instruction of the Board or a committee of the Board consisting of one or more members of the Board in respect of the exercise of voting rights (if any) and powers in relation to the Class A ordinary shares held by Quhuo Holding (BVI) Limited until they have been transferred outside of the trust and/or the nominee to the personal accounts of the relevant grant recipient.

C. Board Practices

Board of Directors

Our board of directors consists of eight directors. A director is not required to hold any shares in our company to qualify to serve as a director. A director may vote with respect to any contract, proposed contract or arrangement notwithstanding that he may be interested therein, and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of our directors at which any such contract or proposed contract or arrangement is considered, provided (a) such director, if his interest (whether direct or indirect) in such contract or arrangement is material, has declared the nature of his interest at the earliest meeting of the board at which it is practicable for him to do so, either specifically or by way of a general notice and (b) if such contract or arrangement is a transaction with a related party, such transaction has been approved by the audit committee. Our directors may exercise all the powers of the company to borrow money, mortgage or charge its undertaking, property and uncalled capital, and issue debentures, debenture share and other securities whenever money is borrowed or as security for any debt, liability or obligation of the company or of any third party.

Board Diversity

The following board diversity matrix sets forth the information concerning the gender, demographic background and certain other characteristics of our board of directors as of the date of this annual report, as self-identified by its members, in accordance with Rule 5606 of the Nasdaq Listing Rules.

Country of Principal Executive Offices	People's Republic of China			
Foreign Private Issuer	Yes			
Disclosure Prohibited under Home Country Law	No			
Total Number of Directors	8			
	Female	Male	Non-Binary	Did Not Disclose Gender
Part I: Gender Identity				
Directors	4	4	0	0
Part II: Demographic Background				
Underrepresented Individual in Home Country Jurisdiction			0	
LGBTQ+			0	
Did Not Disclose Demographic Background			0	

Committees of the Board of Directors

Our board of directors has established an audit committee, a compensation committee and a nominating and corporate governance committee, and has adopted a charter for each of the three committees. Each committee's members and functions are described below.

Audit Committee. Our audit committee consists of Ms. Jie Jiao, Mr. Jingchuan Li and Ms. Jing Zhou, and is chaired by Ms. Jie Jiao. Each of Ms. Jie Jiao, Mr. Jingchuan Li and Ms. Jing Zhou satisfies the "independence" requirements of Rule 5605(a)(2) of the Nasdaq Stock Market Rules and meets the independence standards under Rule 10A-3 under the Exchange Act. We have determined that Ms. Jie Jiao qualifies as an "audit committee financial expert."

The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- selecting the independent registered public accounting firm and pre-approving all auditing and non-auditing services permitted to be performed by the independent registered public accounting firm;
- reviewing with the independent registered public accounting firm any audit problems or difficulties and management's response;

- reviewing and approving all proposed related party transactions, as defined in Item 404 of Regulation S-K under the Securities Act;
- discussing the annual audited financial statements with management and the independent registered public accounting firm;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material control deficiencies;
- reviewing and reassessing annually the adequacy of our audit committee charter;
- meeting separately and periodically with management and the independent registered public accounting firm;
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance; and
- reporting regularly to the board.

Compensation Committee. Our compensation committee consists of Mr. Leslie Yu, Mr. Jingchuan Li and Ms. Jing Zhou, and is chaired by Mr. Leslie Yu. Each of Mr. Jingchuan Li and Ms. Jing Zhou satisfies the “independence” requirements of Rule 5605(a)(2) of the Nasdaq Stock Market Rules. As a foreign private issuer, we have elected to not have our compensation committee consist of entirely independent directors.

The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which their compensation is deliberated upon. The compensation committee is responsible for, among other things:

- reviewing and approving, or recommending to the board for its approval, the total compensation package for our chief executive officer and other executive officers;
- reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors;
- reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements; and
- selecting compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person’s independence from management.

Nominating and Corporate Governance Committee. Our nominating and corporate governance committee consists of Mr. Leslie Yu, Mr. Jingchuan Li and Ms. Jing Zhou, and is chaired by Mr. Leslie Yu. Each of Mr. Jingchuan Li and Ms. Jing Zhou satisfies the “independence” requirements of Rule 5605(a)(2) of the Nasdaq Stock Market Rules. As a foreign private issuer, we have elected not to have our nominating and corporate governance committee consist of entirely independent directors.

The nominating and corporate governance committee assists the board in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is responsible for, among other things:

- recommending nominees to the board for election or re-election to the board, or for appointment to fill any vacancy on the board;
- reviewing annually with the board the current composition of the board with regards to characteristics such as independence, age, skills, experience and availability of service to us;

- selecting and recommending to the board the names of directors to serve as members of the audit committee and the compensation committee, as well as of the nominating and corporate governance committee itself;
- developing and reviewing the corporate governance principles adopted by the board and advising the board with respect to significant developments in the law and practice of corporate governance and our compliance with such laws and practices; and
- evaluating the performance and effectiveness of the board as a whole.

Duties of Directors

Under Cayman Islands law, our directors owe to us fiduciary duties, including a duty of loyalty, a duty to act honestly and a duty to act in what they consider in good faith to be in our best interests. Our directors must also exercise their powers only for a proper purpose. Our directors also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than what may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care, and these authorities are likely to be followed in the Cayman Islands. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time. Our company may have the right to seek damages if a duty owed by our directors is breached. A shareholder may in certain limited exceptional circumstances have the right to seek damages in our name if a duty owed by our directors is breached.

Our board of directors has all the powers necessary for managing, and for directing and supervising, our business affairs. The functions and powers of our board of directors include, among others:

- convening shareholders' annual general meetings and reporting its work to shareholders at such meetings;
- declaring dividends and distributions;
- appointing officers and determining the term of office and its responsibilities of the officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the transfer of shares in our company, including the registration of such shares in our share register.

Terms of Directors and Officers

Our directors are not subject to a term of office and hold office until such time as they are removed from office by ordinary resolution of the shareholders. Pursuant to the second memorandum and articles of association, an appointment of a director may be on terms that the director shall automatically retire from office (unless he has sooner vacated office) at the next or a subsequent annual general meeting or upon any specified event or after any specified period in a written agreement between the company and the director, if any; but no such term shall be implied in the absence of express provision. A director will cease to be a director if, among other things, the director (1) becomes bankrupt or makes any arrangement or composition with his creditors; (2) dies or is found by our company to be or becomes of unsound mind; (3) resigns his office by notice in writing to the company; (4) without special leave of absence from our board, is absent from three consecutive board meetings and our board of directors resolve that his office be vacated; or (5) is removed from office pursuant to any other provision of our second amended and restated memorandum and articles of association. Our officers are elected by and serve at the discretion of the board of directors.

Employment Agreements and Indemnification Agreements

We have entered into employment agreements with our executive officers. Each of our executive officers is employed for a specified time period, which will be automatically extended for successive one-year terms unless either party gives the other party a prior written notice to terminate employment. We may terminate the employment for cause, at any time, without advance notice or remuneration, for certain acts of the executive officer, including conviction or pleading of guilty to a felony, fraud, misappropriation or embezzlement; negligent or dishonest act to our detriment; misconduct or failure to perform his or her duty; disability; or death. An executive officer may terminate his or her employment at any time with a one-month prior written notice if there is a material and substantial reduction in such executive officer's existing authority and responsibilities or at any time if the termination is approved by our board of directors.

Each executive officer has agreed to hold, both during and after the employment agreement expires, in strict confidence and not to use or disclose to any person, corporation or other entity without written consent, any confidential information. Each executive officer has also agreed to assign to us all his or her all inventions, improvements, designs, original works of authorship, formulas, processes, compositions of matter, computer software programs, databases, mask works and trade secrets.

Each executive officer has also agreed that, during his or her term of employment and for a period of two years after terminating employment with us, such executive officer will not, without our prior written consent, (1) approach our suppliers, clients, customers or contacts or other persons or entities introduced to the executive officer in his or her capacity as a representative of us for the purpose of doing business with such persons or entities that will harm our business relationships with these persons or entities; (2) assume employment with or provide services to any of our competitors, or engage, whether as principal, partner, licensor or otherwise, any of our competitors, without our express consent; or (3) seek directly or indirectly, to solicit the services of, or hire or engage any of our employees who is employed by us on or after the date of the executive officer's termination, or in the year preceding such termination, without our express consent.

We have entered into indemnification agreements with our directors and executive officers, pursuant to which we will agree to indemnify our directors and executive officers against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being such a director or officer.

D. Employees

As of December 31, 2020, 2021 and 2022, we had 708, 685 and 495 full-time employees, respectively. The following table sets forth the numbers of our full-time employees by functions as of December 31, 2022.

	As of the December 31, 2022
Information technology research and development	53
Operating	376
General and administrative	66
Total	495

We enter into employment contracts with our full-time employees, which contain standard confidentiality provisions.

We are required under PRC law to make contributions to employee benefit plans at specified percentages of salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time. We engage a specialist agency to pay various mandatory employee social security plans that are organized by municipal and provincial governments, including housing, pension, medical insurance and unemployment insurance.

We believe that we maintain a good working relationship with our employees, and we have not experienced any material labor disputes in the past. None of our employees are represented by labor unions.

E. Share Ownership

The following table sets forth information concerning the beneficial ownership of our ordinary shares as of April 10, 2023 by:

- each of our directors and executive officers; and
- each person known to us to beneficially own 5.0% or more of our ordinary shares.

The calculation in the table below is based on 61,676,213 ordinary shares outstanding as of April 10, 2023, including 55,379,583 Class A ordinary shares and 6,296,630 Class B ordinary shares.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days, including through the exercise of any option, warrant, or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

See “—B. Compensation” for more details on options and restricted shares granted to our directors and executive officers.

	Class A Ordinary Shares	Class B Ordinary Shares	Percentage of Beneficial Ownership †	Percentage of Aggregate Voting Power ††
Directors and Executive Officers**				
Leslie Yu(1)	1,458,192	6,296,630	12.6 %	64.0 %
Zhen Ba(2)	2,363,030	—	3.8 %	1.6 %
Gang Wang	664,333	—	1.1 %	0.6 %
Chenxi Zhao	—	—	—	—
Wenying Lyu	—	—	—	—
Fan Pan	*	—	*	*
Jingchuan Li	—	—	—	—
Jing Zhou	—	—	—	—
Jie Jiao	—	—	—	—
Directors and executive officers as a group	5,229,059	6,296,630	18.7 %	66.5 %
Principal Shareholders				
LESYU Investments Limited(1)	—	6,296,630	10.2 %	63.0 %
Shuyi Yang	6,113,540	—	9.9 %	4.1 %
BZB Investment Limited(2)	2,363,030	—	3.8 %	1.6 %
Quhuo Holding (BVI) Limited(3)	6,739,923	—	10.9 %	—
Baidu Online Network Technology (Beijing) Co., Ltd.(4)	5,950,290	—	9.6 %	4.0 %
SBCVC Fund IV, L.P.(5)	5,673,780	—	9.2 %	3.8 %
ClearVue YummyExpress Holdings, Ltd.(6)	3,616,630	—	5.9 %	2.4 %

* Less than 1% of our total outstanding shares as of April 10, 2023.

** The business address for our directors and executive officers is 3rd Floor, Block A, Tonghui Building, No. 1132 Huihe South Street, Chaoyang District, Beijing, People’s Republic of China.

† For each person and group included in this column, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group by the sum of the total number of shares outstanding as of April 10, 2023.

†† For each person and group included in this column, the percentage of voting power is calculated by dividing the voting power beneficially owned by such person or group by the voting power of all of our Class A and Class B ordinary shares as a single class. In respect of all matters upon which the ordinary shares are entitled to vote, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to 15 votes, voting together as one class. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. The trustee of our equity incentive trust does not have any voting power in relation to the Class A ordinary shares held by Quhuo Holding (BVI) Limited.

- (1) Represents (i) 6,296,630 Class B ordinary shares that are held by LESYU Investments Limited, a British Virgin Islands company wholly-owned by Mr. Leslie Yu. The registered office of LESYU Investments Limited is Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands; and (ii) 1,458,192 Class A ordinary shares issuable to Mr. Leslie Yu upon exercise of the share options granted under our 2019 Plan that have vested or are expected to vest within 60 days from the date of this annual report, which are held by The Core Trust Company Limited, as the trustee of share awards.
- (2) Represents 2,363,030 Class A ordinary shares that are held by BZB Investment Limited, a British Virgin Islands company wholly-owned by Mr. Zhen Ba. The registered office of BZB Investment Limited is Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands.

- (3) Represents 6,739,923 Class A ordinary shares that are held by Quhuo Holding (BVI) Limited, of which 5,237,899 Class A ordinary shares are held in the form of the ADSs. Quhuo Holding (BVI) Limited is a British Virgin Islands company and the nominee of Quhuo Trust, which holds these shares for the benefits of the Company and participants thereunder. Quhuo Holding (BVI) Limited is wholly-owned by The Core Trust Company Limited, a trust company acting as the trustee of Quhuo Trust. The investment power and voting power of Quhuo Trust are retained by the Company, and/or after duly exercise of the options by the grantees, the participants thereunder. The trustee and the nominee will not and have no right or power to exercise the voting rights attached to these shares, unless as otherwise instructed by the Company and/or, after duly exercise of options, the participants thereunder. The registered office of Quhuo Holding (BVI) Limited is Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands.
- (4) Represents 5,950,290 Class A ordinary shares held by Baidu Online Network Technology (Beijing) Co., Ltd., a limited liability company incorporated under the laws of the PRC and is ultimately wholly-owned by Baidu, Inc., a Cayman Island company listed on the Nasdaq Global Select Market under the symbol “BIDU.” The registered office of Baidu Online Network Technology (Beijing) Co., Ltd. is Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing, the PRC.
- (5) Represents 5,673,780 Class A ordinary shares held by SBCVC Fund IV, L.P., a Cayman Islands company. The general partner of SBCVC Fund IV, L.P. is SBCVC Management IV, L.P., a Cayman Islands company. The registered office of SBCVC Fund IV, L.P. is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (6) Represents 3,616,630 Class A ordinary shares held by ClearVue YummyExpress Holdings, Ltd., a Cayman Islands company, of which 960,000 Class A ordinary shares are held in the form of the ADSs, according to a Schedule 13G filed on February 5, 2021. ClearVue YummyExpress Holdings, Ltd. is controlled by ClearVue Partner II, L.P., the general partner of which is ClearVue Partners II GP, L.P. and ultimately controlled by Harry Chi Hui and William Apollo Chen. The registered office of ClearVue YummyExpress Holdings, Ltd. is 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Cayman Islands.

To the best of our knowledge, as of April 10, 2023, a total of 27,197,869 Class A ordinary shares were held by one record holder in the United States, which is Deutsche Bank Trust Company Americas, the depository of our ADS program, representing 44.1% of our total outstanding shares. None of our outstanding Class B ordinary shares is held by record holders in the United States. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

F. Disclosure of a Registrant’s Action to Recover Erroneously Awarded Compensation

Not applicable.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A Major Shareholders

See “Item 6. Directors, Senior Management and Employees—E. Share Ownership.”

B Related Party Transactions

Contractual Arrangements with the VIE and its Shareholders

We, through our WFOE, entered into a series of contractual arrangements with the VIE and its shareholders. Through the VIE agreements, the shareholders of the VIE effectively assigned all of their voting rights underlying their respective equity interest in the VIE to us, which enabled us to direct the activities of the VIE that most significantly impact the VIE’s economic performance, and we, through our WFOE, have the right to receive economic benefits from the VIE that could potentially be significant to the VIE and have the obligation to absorb losses of the VIE that could potentially be significant to the VIE. For a description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure—Our Contractual Arrangements.”

Employment Agreements and Indemnification Agreements

See “Item 6. Directors, Senior Management and Employees—C. Board Practices— Employment Agreements and Indemnification Agreements.”

Shareholders Agreement

We entered into our shareholders agreement on August 23, 2019 with our shareholders.

Pursuant to this shareholders agreement, our board of directors shall consist of up to nine directors. SBCVC Fund IV, L.P. and iStart Venture Limited jointly have the right to appoint one director, each of Baidu Online Network Technology (Beijing) Co., Ltd., ClearVue YummyExpress Holdings, Ltd. and FUSI Irvine L.P. individually has the right to appoint one director, and the founders of the Company jointly have the right to jointly appoint five directors. CDIB Private Equity (Fujian) Enterprise (Limited Partnership) and Zhongnan Capital (Hong Kong) Limited jointly have the right to appoint one board observer.

The shareholders agreement also provides for certain preferential rights, including among others, right of participation, redemption rights and co-sale rights. All the preferential rights have been terminated or waived upon the completion of our initial public offering in July 2020.

Transactions with Ningbo Nuannuan

Ningbo Nuannuan Network Technology Co., Ltd., or Ningbo Nuannuan, is a company controlled by Lili Sun, spouse of Mr. Leslie Yu, and is primarily engaged in on-demand food delivery business. We had amounts due from Ningbo Nuannuan of RMB2.9 million and nil as of December 31, 2020 and 2021, respectively, representing working capital advanced to Ningbo Nuannuan.

Amounts due from Ningbo Nuannuan were unsecured, interest-free and have fixed terms of repayment. The amounts were repaid in April 2021.

Transaction with Hainan Huiliu

Hainan Huiliu Tianxia Network Technology Co., Ltd., or Hainan Huiliu, is a company controlled by a principal shareholder and is engaged in labor recruitment services. We received labor consulting service from Hainan Luiliu of nil, RMB54.5 million and RMB63.5 million (US\$9.2 million) in 2020, 2021 and 2022, respectively. We had amounts due from Hainan Huiliu of nil, RMB4.8 million and RMB3.9 million (US\$0.6 million) as of December 31, 2020, 2021 and 2022, respectively, representing service fees in relation to the labor consulting services we received from Hainan Huiliu, which we recorded as labor service income in other income.

Amounts due from Hainan Huiliu were unsecured, interest-free and have fixed terms of repayment, which were settled in February 2023.

Transaction with Shenyang Bokai

Shenyang Bokai Network Technology Co., Ltd., or Shenyang Bokai, is a company controlled by a manager, and is primarily engaged in labor recruitment services. We received labor consulting service from Shenyang Bokai of nil, RMB1.5 million and RMB1.6 million (US\$0.2 million) in 2020, 2021 and 2022, respectively. We had amounts due to Shenyang Bokai of RMB245,000 as of December 31, 2021 for labor recruitment services it provided to us. We settled the amount due to Shenyang Bokai in March 2022.

Private Placements

See “Item 4. Information on the Company—A. History and Development of the Company.”

Share Incentive Plan

See “Item 6. Directors, Senior Management and Employees—B. Compensation—Share Incentive Plan.”

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal Proceedings

From time to time, we may be subject to various claims and legal actions that arise in the ordinary course of our business. We are not presently a party to any litigation the outcome of which, we believe, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, cash flows or financial condition.

Dividend Policy

We have not declared or paid any dividends. We do not have any present plans to pay any cash dividends on our ordinary shares or the ADSs in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

Our board of directors has complete discretion in deciding the payment of any future dividends, subject to certain requirements of Cayman Islands law. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. The declaration and payment of dividends will depend upon, among other things, our future operations and earnings, capital requirements and surplus, our financial condition, contractual restrictions, general business conditions and other factors as our board of directors may deem relevant.

We are a holding company incorporated in the Cayman Islands. We may rely on dividends from our subsidiaries in China for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiary to pay dividends to us or of the VIE to pay cash dividend payments to us. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—We may rely on dividends paid by our PRC subsidiary to fund cash and financing requirements. Any limitation on the ability of our PRC subsidiary to pay dividends to us could have a material adverse effect on our ability to conduct our business and to pay dividends to holders of the ADSs and our ordinary shares.”

If we pay any dividends, we will pay our ADS holders to the same extent as holders of our Class A ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. See “Item 12. Description of Securities Other than Equity Securities—D. American Depositary Shares.” Cash dividends on our Class A ordinary shares, if any, will be paid in U.S. dollars.

B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

The ADSs are listed on the Nasdaq Global Market under the symbol “QH.” Effective on August 12, 2022, we changed the ratio of the ADSs to Class A ordinary shares from the then ADS ratio of one ADS to one Class A ordinary share to a new ADS ratio of one ADS representing ten Class A ordinary shares.

B. Plan of Distribution

Not applicable.

C. Markets

The ADSs have been listed for trading on the Nasdaq Global Market under the symbol “QH” since July 2020.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The following are summaries of material provisions of our currently effective second amended and restated memorandum and articles of association and of the Companies Act (As Revised) of the Cayman Islands, which we refer to as the “Companies Act” below, insofar as they relate to the material terms of our ordinary shares.

Board of Directors

See “Item 6. Directors, Senior Management and Employees—C. Board Practices.”

Ordinary Shares

General. Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of our Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights. Our ordinary shares are issued in registered form and are issued when registered in our register of shareholders. We may not issue shares to bearer. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares.

Conversion. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any sale, transfer, assignment or disposition of Class B ordinary shares by a holder thereof to any person other than Mr. Leslie Yu or his affiliates, or upon a change of ultimate beneficial ownership of any Class B ordinary share to any person other than Mr. Leslie Yu or his affiliates, such Class B ordinary shares shall be automatically and immediately converted into the same number of Class A ordinary shares.

Dividends. The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors, subject to our second amended and restated memorandum and articles of association. In addition, our shareholders may by an ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Our second amended and restated memorandum and articles of association provide that our directors may, before recommending or declaring any dividend, set aside out of the funds legally available for distribution such sums as they think proper as a reserve or reserves which shall, in the absolute discretion of our directors, be applicable for meeting contingencies or for equalizing dividends or for any other purpose to which those funds may be properly applied. Under the laws of the Cayman Islands, our company may pay a dividend out of either our profit or share premium account, provided that in no circumstances may a dividend be paid if, immediately after this payment, this would result in our company being unable to pay its debts as they fall due in the ordinary course of business.

Voting rights. Holders of Class A ordinary shares and Class B ordinary shares vote together as a single class on all matters submitted to a vote by our shareholders, except as may otherwise be required by law or provided for in our second memorandum and articles of association. Voting at any shareholders' meeting is by show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded. A poll may be demanded by the chairman of such meeting or any shareholder present in person or by proxy at the meeting. On a poll, each Class A ordinary share entitles the holder thereof to one vote, and each Class B ordinary share entitles the holder thereof to 15 votes.

An ordinary resolution to be passed at a meeting by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes cast attaching to the outstanding ordinary shares cast by those shareholders entitled to vote who are present or by proxy at a general meeting. Both ordinary resolutions and special resolutions may also be passed by a unanimous written resolution signed by all the shareholders of our company, as permitted by the Companies Act and our second amended and restated memorandum and articles of association. A special resolution will be required for important matters such as a change of name or making changes to our second amended and restated memorandum and articles of association. We may, among other things, subdivide or consolidate our shares by ordinary resolution.

Transfer of ordinary shares. Subject to the restrictions in our second amended and restated memorandum and articles of association as set out below, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board of directors.

Our board of directors may, in its absolute discretion, decline to register any transfer of any share which is not fully paid up or on which we have a lien. Our board of directors may also decline to register any transfer of any share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of shares;
- the instrument of transfer is properly stamped, if required;
- in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four; and
- a fee of such maximum sum as Nasdaq may determine to be payable or such lesser sum as our directors may from time to time require is paid to us in respect thereof.

If our directors refuse to register a transfer they shall, within three calendar months after the date on which the transfer was lodged with us, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, after compliance with any notice requirement of Nasdaq, be suspended and the register closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended, nor the register closed for more than 30 calendar days in any calendar year as our board may determine.

Liquidation. On a return of capital or the winding up of our company, if the assets available for distribution amongst our shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus shall be distributed amongst our shareholders in proportion to the par value of the shares held by them at the commencement of the winding up, subject to a deduction from those shares in respect of which there are monies due, of all monies payable to our company for unpaid calls or otherwise. If our assets available for distribution are insufficient to repay the whole of the share capital, the assets will be distributed so that the losses are borne by our shareholders in proportion to the par value of the shares held by them.

Calls on shares and forfeiture of shares. Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 calendar days prior to the specified time and place of payment. The shares that have been called upon and remain unpaid are subject to forfeiture.

Redemption, repurchase and surrender of shares. We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders of these shares, on such terms and in such manner as may be determined by our board of directors or by the shareholders by special resolution. Our company may also repurchase any of our shares (including any redeemable shares) on such terms and in such manner as have been approved by our board of directors or by an ordinary resolution of our shareholders. Under the Companies Act, the redemption or repurchase of any share may be paid out of our company's profits or out of the proceeds of a new issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if our company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Act no such share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding or (c) if our company has commenced liquidation. In addition, our company may accept the surrender of any fully paid share for no consideration.

Issuance of additional shares. Our second memorandum and articles of association authorizes our board of directors to issue additional Class A ordinary shares from time to time as our board of directors shall determine, to the extent of available authorized but unissued shares.

Our second memorandum and articles of association also authorizes our board of directors to issue from time to time out of the authorized share capital of the company (other than the authorized but unissued ordinary shares) series of preference shares and to determine, with respect to any series of preferred shares in their absolute discretion and without approval of the shareholders; provided, however, before any preferred shares of any such series are issued, the directors shall by resolution of directors determine, with respect to any series of preferred shares, the terms and rights of that series, including but not limited to:

- the designation of the series;
- the number of shares to constitute the series;
- the dividend rights, dividend rates, conversion rights, voting rights; and
- the rights and terms of redemption and liquidation preferences.

Our board of directors may issue preferred shares without action by our shareholders to the extent authorized but unissued. Issuance of these shares may dilute the voting power of holders of ordinary shares.

Inspection of books and records. Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records (other than our memorandum and articles of association). See "Where You Can Find More Information."

Anti-takeover provisions. Some provisions of our second amended and restated memorandum and articles of association may discourage, delay or prevent a change of control of our company or management that shareholders may consider favorable, including provisions that:

- authorize our board of directors to issue preference shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preference shares without any further vote or action by our shareholders; and
- limit the ability of shareholders to requisition and convene general meetings of shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our second amended and restated memorandum and articles of association for a proper purpose and for what they believe in good faith to be in the best interests of our company.

Exempted company. We are an exempted company with limited liability under the Companies Act. The Companies Act distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except that an exempted company: does not have to file an annual return of its shareholders with the Registrar of Companies;

- is not required to open its register of members for inspection;
- does not have to hold an annual general meeting;
- may issue shares with no par value;
- may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- may register as a limited duration company; and
- may register as a segregated portfolio company.

“Limited liability” means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of our company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

Registered Office and Objects

Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands, or at such other location within the Cayman Islands as our directors may from time to time decide. The objects for which our company is established are unrestricted and we have full power and authority to carry out any object not prohibited by the Companies Act or any other law of the Cayman Islands.

Differences in Corporate Law

The Companies Act is derived, to a large extent, from the older Companies Acts of England but does not follow recent English statutory enactments and accordingly there are significant differences between the Companies Act and the current Companies Act of England. In addition, the Companies Act differs from laws applicable to U.S. corporations and their shareholders. Set forth below is a summary of certain significant differences between the provisions of the Companies Act applicable to us and the laws applicable to companies incorporated in the United States and their shareholders.

Mergers and Similar Arrangements. The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (1) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (2) a “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (1) a special resolution of the shareholders of each constituent company, and (2) such other authorization, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

A merger between a Cayman parent company and its Cayman subsidiary or subsidiaries does not require authorization by a resolution of shareholders of that Cayman subsidiary if a copy of the plan of merger is given to every member of that Cayman subsidiary to be merged unless that member agrees otherwise. For this purpose, a company is a “parent” of a subsidiary if it holds issued shares that together represent at least ninety percent (90%) of the votes at a general meeting of the subsidiary.

The consent of each holder of a fixed or floating security interest over a constituent company is required unless this requirement is waived by a court in the Cayman Islands.

Save in certain limited circumstances, a shareholder of a Cayman constituent company who dissents from the merger or consolidation is entitled to payment of the fair value of his shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) upon dissenting to the merger or consolidation, provide the dissenting shareholder complies strictly with the procedures set out in the Companies Act. The exercise of dissenter rights will preclude the exercise by the dissenting shareholder of any other rights to which he or she might otherwise be entitled by virtue of holding shares, save for the right to seek relief on the grounds that the merger or consolidation is void or unlawful.

Separate from the statutory provisions relating to mergers and consolidations, the Companies Act also contains statutory provisions that facilitate the reconstruction and amalgamation of companies by way of schemes of arrangement, provided that the arrangement is approved by (1) three fourths in value of the shareholders or class of shareholders, as the case may be, or (2) a majority in number representing three fourths in value of the creditors or each class of creditors, as the case may be, with whom the arrangement is to be made, that are, in each case, present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the required majority vote have been met;
- the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class;
- the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Act.

The Companies Act also contains a statutory power of compulsory acquisition which may facilitate the “squeeze out” of dissentient minority shareholder upon a tender offer. When a tender offer is made and accepted by holders of 90.0% of the shares affected within four months, the offeror may, within a two-month period commencing on the expiration of such four-month period, require the holders of the remaining shares to transfer such shares to the offeror on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands, but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud, bad faith or collusion.

If an arrangement and reconstruction by way of scheme of arrangement is thus approved and sanctioned, or if a tender offer is made and accepted in accordance with the foregoing statutory procedures, a dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

Shareholders' suits. In principle, we will normally be the proper plaintiff and as a general rule a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, the Cayman Islands courts can be expected to follow English case law precedents and apply the common law principles (namely the rule in *Foss v. Harbottle* and the exceptions thereto) which permit a minority shareholder to commence a class action against, or derivative actions in the name of, the company to challenge:

- an act which is ultra vires or illegal and is therefore incapable of ratification by the shareholders;
- an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company; and
- an action which requires a resolution with a qualified (or special) majority which has not been obtained.

Indemnification of directors and executive officers and limitation of liability. Cayman Islands law does not limit the extent to which a company's memorandum and articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our second memorandum and articles of association provides that our directors and officers and the personal representatives of the same shall be indemnified against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained in or about the conduct of the company's business or affairs (including as a result of any mistake of judgment), provided that the indemnity shall not extend to any matter in respect of any willful default, fraud or dishonesty which may attach to any of said persons.

In addition, we have entered into indemnification agreements with our directors and executive officers that provide such persons with additional indemnification beyond that provided in our second amended and restated memorandum and articles of association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted for our directors, officers or persons controlling us under the foregoing provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable as a matter of United States law.

Directors' Fiduciary Duties. Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director acts in a manner he reasonably believes to be in the best interests of the corporation. He must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, the director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore it is considered that he owes the following duties to the company—a duty to act bona fide in the best interests of the company, a duty not to make a profit based on his position as director (unless the company permits him to do so), a duty not to put himself in a position where the interests of the company conflict with his personal interest or his duty to a third party, and a duty to exercise powers for the purpose for which such powers were intended. A director of a Cayman Islands company owes to the company a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands.

Shareholder action by written consent. Under the Delaware General Corporation Law, a corporation may eliminate the right of shareholders to act by written consent by amendment to its certificate of incorporation. The Companies Act and our second amended and restated memorandum and articles of association provide that shareholders may approve corporate matters by way of a unanimous written resolution signed by or on behalf of each shareholder who would have been entitled to vote on such matter at a general meeting without a meeting being held.

Shareholder proposals. Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

The Companies Act provides shareholders with only limited rights to requisition a general meeting and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our second amended and restated memorandum and articles of association allow our shareholders holding not less than one-third of all votes attaching to all issued and outstanding shares of our company entitled to vote at general meetings to requisition a shareholder's meeting, in which case our directors shall convene an extraordinary general meeting. Other than this right to requisition a shareholders' meeting, our second amended and restated articles of association do not provide our shareholders other right to put proposal before annual general meetings or extraordinary general meetings not called by such shareholders. As an exempted Cayman Islands company, we are not obligated by law to call shareholders' annual general meetings.

Cumulative voting. Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. There are no prohibitions in relation to cumulative voting under the Companies Act but our second amended and restated memorandum and articles of association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

Removal of directors. Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our second amended and restated memorandum and articles of association, subject to certain restrictions as contained therein, directors may be removed with or without cause, by an ordinary resolution of our shareholders. An appointment of a director may be on terms that the director shall automatically retire from office (unless he has sooner vacated office) at the next or a subsequent annual general meeting or upon any specified event or after any specified period in a written agreement between the company and the director, if any; but no such term shall be implied in the absence of express provision. A director shall hold office until the expiration of his or her term or his or her successor shall have been elected and qualified, or until his or her office is otherwise vacated. In addition, a director's office shall be vacated if the director (1) becomes bankrupt or makes any arrangement or composition with his creditors; (2) is found to be or becomes of unsound mind or dies; (3) resigns his office by notice in writing to the company; (4) without special leave of absence from our board of directors, is absent from three consecutive meetings of the board and the board resolves that his office be vacated; or (5) is removed from office pursuant to any other provisions of our second amended and restated memorandum and articles of association.

Transactions with interested shareholders. The Delaware General Corporation Law contains a business combination statute applicable to Delaware corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target's outstanding voting share within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, the directors of the company are required to comply with the fiduciary duties which they owe to the company under Cayman Islands law, including the duty to ensure that, in their opinion, any such transactions entered into are bona fide in the best interests of the company, and are entered into for a proper corporate purpose and not with the effect of constituting a fraud on the minority shareholders.

Restructuring.

A company may present a petition to the Grand Court of the Cayman Islands for the appointment of a restructuring officer on the grounds that the company: (1) is or is likely to become unable to pay its debts; and (2) intends to present a compromise or arrangement to its creditors (or classes thereof) either pursuant to the Companies Act, the law of a foreign country or by way of a consensual restructuring.

The Grand Court may, among other things, make an order appointing a restructuring officer upon hearing of such petition, with such powers and to carry out such functions as the court may order. At any time (1) after the presentation of a petition for the appointment of a restructuring officer but before an order for the appointment of a restructuring officer has been made, and (2) when an order for the appointment of a restructuring officer is made, until such order has been discharged, no suit, action or other proceedings (other than criminal proceedings) shall be proceeded with or commenced against the company, no resolution to wind up the company shall be passed, and no winding up petition may be presented against the company, except with the leave of the court. However, notwithstanding the presentation of a petition for the appointment of a restructuring officer or the appointment of a restructuring officer, a creditor who has security over the whole or part of the assets of the company is entitled to enforce the security without the leave of the court and without reference to the restructuring officer appointed.

Dissolution; winding up. Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board.

Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its members or, if the company is unable to pay its debts as they fall due, by an ordinary resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

Variations of rights of shares. Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under Cayman Islands law and our second amended and restated articles of association, if at any time, our share capital is divided into different classes of shares, the rights attached to any class of shares (unless otherwise provided by the terms of issue of the shares of that class) may be materially and adversely varied with the consent in writing of the holders of two-thirds of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of the class. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be materially adversely varied by the creation or issue of further shares with preferred or other rights including without limitation the creation of shares with enhanced or weighted voting rights.

Amendment of governing documents. Under the Delaware General Corporation Law, a corporation's governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under Cayman Islands law, our second amended and restated memorandum and articles of association may only be amended with a special resolution of our shareholders.

Rights of non-resident or foreign shareholders. There are no limitations imposed by our second amended and restated memorandum and articles of association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our second amended and restated memorandum and articles of association that require our company to disclose shareholder ownership above any particular ownership threshold.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 4. Information on the Company” or “Item 7. Major Shareholders and Related Party Transactions” or elsewhere in this annual report on Form 20-F.

D. Exchange Controls

See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Foreign Exchange.”

E. Taxation

The following discussion of material Cayman Islands, PRC and United States federal income tax consequences of an investment in the ADSs or Class A ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This discussion does not deal with all possible tax consequences relating to an investment in the ADSs or Class A ordinary shares, such as the tax consequences under state, local and other tax laws.

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties applicable to payments to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Payments of dividends and capital in respect of the shares will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of a dividend or capital to any holder of our shares, nor will gains derived from the disposal of the shares be subject to Cayman Islands income or corporation tax.

Pursuant to Section 6 of the Tax Concessions Act (As Revised) of the Cayman Islands, we may apply and we have applied for an undertaking from the Clerk of the Cabinet of the Cayman Islands that:

- no law which is hereinafter enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to us or our operations; and
- the aforesaid tax or any tax which is in the nature of estate duty or inheritance tax shall not be payable on or in respect of our shares, debentures or other obligations or by way of the withholding in whole or in part of any relevant payment as defined in the Tax Concessions Act.

The undertaking is for a period of 20 years from November 19, 2019.

PRC Taxation

See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Tax in the PRC.”

U.S. Federal Income Taxation

The following discussion is a summary of material U.S. federal income tax considerations relating to the ownership and disposition of the ADSs or ordinary shares by a U.S. Holder, as defined below, that holds the ADSs or ordinary shares as “capital assets” (generally, property held for investment) under the U.S. Internal Revenue Code of 1986, as amended, or the Code. This discussion is based upon existing U.S. federal income tax law as of the date of this annual report, which is subject to differing interpretations or change, possibly with retroactive effect. No ruling has been sought from the U.S. Internal Revenue Service, or the IRS, with respect to any U.S. federal income tax consequences described below, and there can be no assurance that the IRS or a court will not take a contrary position. This discussion does not address all aspects of U.S. federal income taxation that may be important to particular investors in light of their individual circumstances, including investors subject to special tax rules (such as, for example, financial institutions, insurance companies, regulated investment companies, real estate investment trusts, broker-dealers, traders in securities that elect mark-to-market treatment, partnerships or other pass-through entities and their partners or investors, and tax-exempt organizations (including private foundations)), investors who are subject to special tax accounting rules under Section 451(b) of the Code, investors who are not U.S. Holders, investors that own (directly, indirectly or constructively) ADSs or ordinary shares representing 10% or more of our stock (by vote or by value), investors that hold ADSs or ordinary shares as part of a straddle, hedge, conversion, constructive sale or other integrated transaction, investors that have a functional currency other than the U.S. dollar and certain former citizens or long-term residents of the United States, all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this discussion does not address any U.S. federal non-income, state, local or non-U.S. tax considerations, the alternative minimum tax or the Medicare contribution tax on net investment income. Each potential investor is urged to consult its tax advisor regarding the U.S. federal, state, local and non-U.S. income and other tax considerations of an investment in the ADSs or ordinary shares.

General

For purposes of this discussion, a “U.S. Holder” is a beneficial owner of the ADSs or ordinary shares that is, for U.S. federal income tax purposes, (1) an individual who is a citizen or resident of the United States, (2) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created in, or organized under the laws of, the United States or any state thereof or the District of Columbia, (3) an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source or (4) a trust (a) the administration of which is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust, or (b) that has otherwise elected to be treated as a “United States person” under the Code.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of the ADSs or ordinary shares, the tax treatment of a partner in the partnership will depend upon the status of the partner and the activities of the partnership. Partnerships and partners of a partnership holding the ADSs or ordinary shares are urged to consult their tax advisors regarding an investment in the ADSs or ordinary shares.

The discussion below assumes the deposit agreement and any related agreement will be complied with in accordance with its terms.

For U.S. federal income tax purposes, a U.S. Holder of ADSs will generally be treated as the beneficial owner of the underlying ordinary shares represented by the ADSs. Accordingly, deposits or withdrawals of ordinary shares for the ADSs will generally not be subject to U.S. federal income tax.

Passive foreign investment company considerations

A non-U.S. corporation, such as our company, will be classified as a “passive foreign investment company,” or PFIC, for U.S. federal income tax purposes, if, in the case of any particular fiscal year, either (1) 75% or more of its gross income for such year consists of certain types of “passive” income or (2) 50% or more of its average quarterly assets during such year is attributable to assets that produce or are held for the production of passive income. For this purpose, cash is categorized as a passive asset and the company’s unbooked intangibles associated with active business activities may generally be classified as active assets. Passive income generally includes, among other things, dividends, interest, rents, royalties, and gains from the disposition of passive assets. We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other non-U.S. corporation in which we own, directly or indirectly, more than 25% (by value) of the stock.

The determination of whether we will be or become a PFIC will depend upon (1) the composition of our income (which may differ from our historical results and current projections) and (2) the composition and characterization of our assets and the value of our assets from time to time, including, in particular, the value of our goodwill and other unbooked intangibles (which may depend upon the market value of the ADSs or ordinary shares from time to time and which has been and may continue to be volatile). Our PFIC status for any taxable year will generally be determined in part by reference to our market capitalization, which has fluctuated significantly during the fiscal year ended December 31, 2022. In addition, although the law in this regard is unclear, we treat the affiliated entities as being owned by us for U.S. federal income tax purposes, not only because we direct the activities of such entities that most significantly impact their economic performance, but also because we are entitled to substantially all of their economic benefits, and, as a result, we combine and consolidate their operating results in our consolidated financial statements. Assuming that we are the owner of the consolidated affiliated entities for U.S. federal income tax purposes, based upon the current and anticipated value of our assets, the composition of our income and assets and the projections as to the value of the ADSs and ordinary shares, we believe it is reasonable to take a position that we were not classified as a PFIC for the fiscal year ended December 31, 2022. Among other matters, if our market capitalization does not increase or continues to decline, we could be classified as a PFIC for the current or future fiscal years. It is also possible that the IRS may challenge our classification of our income or assets or the valuation of our goodwill and other unbooked intangibles, which may result in our company being, or becoming classified as, a PFIC for the current or one or more future fiscal years.

The determination of whether we will be or become a PFIC may also depend, in part, on how, and how quickly, we use our liquid assets and cash. Under circumstances where we retain significant amounts of liquid assets, or if the affiliated entities were not treated as owned by us for U.S. federal income tax purposes, our risk of being classified as a PFIC may substantially increase. Because there are uncertainties in the application of the relevant rules and PFIC status is a factual determination made annually after the close of each taxable year, there can be no assurance that we will not be a PFIC for the current taxable year ending December 31, 2023 or any future taxable year or that the IRS will not take a contrary position. If we were classified as a PFIC for any year during which a U.S. Holder held the ADSs or ordinary shares, we generally would continue to be treated as a PFIC for all succeeding years during which such U.S. Holder held the ADSs or ordinary shares. The discussion below under “—Dividends” and “—Sale or other disposition of ADSs or ordinary shares” is written on the basis that we will not be classified as a PFIC for U.S. federal income tax purposes. The U.S. federal income tax rules that apply if we are classified as a PFIC for the current fiscal year or any subsequent fiscal year are discussed below under “—Passive foreign investment company rules.”

Dividends

Subject to the PFIC rules described below, any cash distributions (including the amount of any PRC tax withheld) paid on the ADSs or ordinary shares out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, will generally be includible in the gross income of a U.S. Holder as dividend income on the day actually or constructively received by the U.S. Holder, in the case of ordinary shares, or by the depository bank, in the case of ADSs. Because we do not intend to determine our earnings and profits on the basis of U.S. federal income tax principles, any distribution will generally be treated as a “dividend” for U.S. federal income tax purposes. Under current law, a non-corporate recipient of dividend income will generally be subject to tax on dividend income from a “qualified foreign corporation” at the lower rates applicable to “qualified dividend income” rather than the marginal tax rates generally applicable to ordinary income, provided that certain holding period and other requirements are met.

A non-U.S. corporation (other than a corporation that is classified as a PFIC for the fiscal year in which the dividend is paid or the preceding fiscal year) will generally be considered to be a qualified foreign corporation (1) if it is eligible for the benefits of a comprehensive tax treaty with the United States which the Secretary of the Treasury of the United States determines is satisfactory for purposes of this provision and which includes an exchange of information program, or (2) with respect to any dividend it pays on stock (or ADSs in respect of such stock) that is readily tradable on an established securities market in the United States. The ADSs are currently listed on Nasdaq. We believe, but cannot assure you, that the ADSs are and will continue to be considered to be readily tradable on an established securities market in the United States and that we are and will continue to be a qualified foreign corporation with respect to dividends paid on the ADSs. Since our ordinary shares are not listed on established securities markets, it is unclear whether dividends that we pay on our ordinary shares that are not backed by ADSs currently meet the conditions required for the reduced tax rate. There can be no assurance that the ADSs will be considered readily tradable on an established securities market in future years. In the event we are deemed to be a PRC resident enterprise under the Enterprise Income Tax Law (see “—PRC Taxation”), we may be eligible for the benefits of the Agreement Between the Government of the United States of America and the Government of the People’s Republic of China for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income, or the U.S.-PRC income tax treaty (which the Secretary of the Treasury of the United States has determined is satisfactory for this purpose), in which case we would be treated as a qualified foreign corporation with respect to dividends paid on our ordinary shares (regardless of whether such shares are backed by ADSs) or ADSs. U.S. Holders are urged to consult their tax advisors regarding the availability of the reduced tax rate on dividends in their particular circumstances. Dividends received on the ADSs or ordinary shares will not be eligible for the dividends received deduction allowed to qualifying corporations under the Code.

For U.S. foreign tax credit purposes, dividends paid on the ADSs or ordinary shares will generally be treated as income from foreign sources and will generally constitute passive category income. In the event that we are deemed to be a PRC resident enterprise under the Enterprise Income Tax Law, a U.S. Holder may be subject to PRC withholding taxes on dividends paid, if any, on the ADSs or ordinary shares. A U.S. Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any foreign withholding taxes imposed on dividends received on the ADSs or ordinary shares. A U.S. Holder who does not elect to claim a foreign tax credit for foreign tax withheld may instead claim a deduction for U.S. federal income tax purposes in respect of such withholding, but only for a year in which such U.S. Holder elects to do so for all creditable foreign income taxes. The rules governing foreign tax credits are complex. U.S. Holders are urged to consult their tax advisors regarding the availability of foreign tax credits under their particular circumstances.

Sale or other disposition of ADSs or ordinary shares

Subject to the PFIC rules discussed below, a U.S. Holder will generally recognize capital gain or loss, if any, upon the sale or other disposition of ADSs or ordinary shares in an amount equal to the difference between the amount realized upon the disposition and the U.S. Holder’s adjusted tax basis in such ADSs or ordinary shares. Any capital gain or loss will be long-term capital gain or loss if the ADSs or ordinary shares have been held for more than one year and will generally be U.S. source gain or loss for U.S. foreign tax credit purposes. Long-term capital gains of non-corporate U.S. Holders are currently eligible for reduced rates of taxation. In the event that we are treated as a PRC resident enterprise under the EIT Law, and gain from the disposition of the ADSs or ordinary shares is subject to tax in the PRC (see “—PRC Taxation”), such gain may be treated as PRC source gain for foreign tax credit purposes under the U.S.-PRC income tax treaty. The deductibility of a capital loss may be subject to limitations. U.S. Holders are urged to consult their tax advisors regarding the tax consequences if a foreign tax is imposed on a disposition of the ADSs or ordinary shares, including the availability of foreign tax credits under their particular circumstances.

Passive foreign investment company rules

If we are classified as a PFIC for any fiscal year during which a U.S. Holder holds the ADSs or ordinary shares, unless the U.S. Holder makes one of certain elections (as described below), the U.S. Holder will, except as discussed below, be subject to special tax rules that have a penalizing effect, regardless of whether we remain a PFIC, on (1) any excess distribution that we make to the U.S. Holder (which generally means any distribution paid during a fiscal year to a U.S. Holder that is greater than 125% of the average annual distributions paid in the three preceding fiscal years or, if shorter, the U.S. Holder’s holding period for the ADSs or ordinary shares), and (2) any gain realized on the sale or other disposition, including, under certain circumstances, a pledge, of ADSs or ordinary shares. Under the PFIC rules:

- the excess distribution and/or gain will be allocated ratably over the U.S. Holder’s holding period for the ADSs or ordinary shares;

- the amount of the excess distribution or gain allocated to the fiscal year of distribution or gain and to any fiscal years in the U.S. Holder's holding period prior to the first fiscal year in which we are classified as a PFIC (each such fiscal year, a pre-PFIC year) will be taxable as ordinary income; and
- the amount of the excess distribution or gain allocated to each prior fiscal year, other than the current fiscal year of distribution or gain or a pre-PFIC year, will be subject to tax at the highest tax rate in effect applicable to the individuals or corporations, as appropriate, for that other fiscal year, and will be increased by an additional tax equal to interest on the resulting tax deemed deferred with respect to each such other fiscal year.

If we are a PFIC for any fiscal year during which a U.S. Holder holds the ADSs or ordinary shares and any of our non-U.S. subsidiaries or other corporate entities in which we own equity interests is also a PFIC, such U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. Each U.S. Holder is advised to consult its tax advisors regarding the application of the PFIC rules to any of our lower-tier PFICs.

If we are a PFIC for any fiscal year during which a U.S. Holder holds the ADSs or ordinary shares, we will continue to be treated as a PFIC with respect to such U.S. Holder for all succeeding years during which the U.S. Holder holds the ADSs or ordinary shares, unless we were to cease to be a PFIC and the U.S. Holder makes a "deemed sale" election with respect to the ADSs or ordinary shares. If such election is made, the U.S. Holder will be deemed to have sold the ADSs or ordinary shares it holds at their fair market value and any gain from such deemed sale would be subject to the rules described in the preceding two paragraphs. After the deemed sale election, so long as we do not become a PFIC in a subsequent fiscal year, the ADSs or ordinary shares with respect to which such election was made will not be treated as shares in a PFIC and, as a result, the U.S. Holder will not be subject to the rules described above with respect to any "excess distribution" the U.S. Holder receives from us or any gain from an actual sale or other disposition of the ADSs or ordinary shares. Each U.S. Holder is strongly urged to consult its tax advisors as to the possibility and consequences of making a deemed sale election if we are and then cease to be a PFIC and such an election becomes available to the U.S. Holder.

As an alternative to the foregoing rules, a U.S. Holder of "marketable stock" in a PFIC may make a mark-to-market election with respect to ADSs, provided that the ADSs are "regularly traded" (as specially defined) on Nasdaq, which is a qualified exchange or other market for these purposes. No assurances may be given regarding whether the ADSs qualify, or will continue to qualify, as being regularly traded in this regard. If a mark-to-market election is made, the U.S. Holder will generally (1) include as ordinary income for each fiscal year that we are a PFIC the excess, if any, of the fair market value of ADSs held at the end of the fiscal year over the U.S. Holder's adjusted tax basis in such ADSs and (2) deduct as an ordinary loss the excess, if any, of the U.S. Holder's adjusted tax basis in such ADSs over the fair market value of such ADSs held at the end of the fiscal year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. The U.S. Holder's adjusted tax basis in the ADSs would be adjusted to reflect any income or loss resulting from the mark-to-market election. If a U.S. Holder makes an effective mark-to-market election, in each year that we are a PFIC, any gain recognized upon the sale or other disposition of the ADSs will be treated as ordinary income and any loss will be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. Because our ordinary shares are not listed on a stock exchange, U.S. Holders will not be able to make a mark-to-market election with respect to our ordinary shares.

If a U.S. Holder makes a mark-to-market election in respect of a corporation classified as a PFIC and such corporation ceases to be classified as a PFIC, the U.S. Holder will not be required to take into account the mark-to-market gain or loss described above during any period that such corporation is not classified as a PFIC.

Because a mark-to-market election cannot be made for any lower-tier PFICs that a PFIC may own, a U.S. Holder who makes a mark-to-market election with respect to the ADSs may continue to be subject to the general PFIC rules with respect to such U.S. Holder's indirect interest in any of our non-U.S. subsidiaries or other corporate entities in which we own equity interests that is classified as a PFIC.

We do not intend to provide information necessary for U.S. Holders to make qualified electing fund elections, which, if available, would result in tax treatment different from the general tax treatment for PFICs described above.

As discussed above under “Dividends,” dividends that we pay on the ADSs or ordinary shares will not be eligible for the reduced tax rate that applies to qualified dividend income if we are classified as a PFIC for the fiscal year in which the dividend is paid or the preceding fiscal year. In addition, if a U.S. Holder owns the ADSs or ordinary shares during any fiscal year that we are a PFIC, the U.S. Holder must file an annual information return with the IRS. Each U.S. Holder is urged to consult its tax advisor concerning the U.S. federal income tax consequences of purchasing, holding, and disposing the ADSs or ordinary shares if we are or become a PFIC, including the possibility of making a mark-to-market election and the unavailability of the qualified electing fund election.

Information reporting and backup withholding

Certain U.S. Holders are required to report information to the IRS relating to an interest in “specified foreign financial assets” (as defined in the Code), including shares issued by a non-U.S. corporation, for any year in which the aggregate value of all specified foreign financial assets exceeds \$50,000 (or a higher dollar amount prescribed by the IRS), subject to certain exceptions (including an exception for shares held in custodial accounts maintained with a U.S. financial institution). These rules also impose penalties if a U.S. Holder is required to submit such information to the IRS and fails to do so.

In addition, U.S. Holders may be subject to information reporting to the IRS and backup withholding with respect to dividends on and proceeds from the sale or other disposition of the ADSs or ordinary shares. Information reporting will apply to payments of dividends on, and to proceeds from the sale or other disposition of, our ordinary shares or ADSs by a paying agent within the United States to a U.S. Holder, other than U.S. Holders that are exempt from information reporting and properly certify their exemption. A paying agent within the United States will be required to withhold at the applicable statutory rate, currently 24%, in respect of any payments of dividends on, and the proceeds from the disposition of, our ordinary shares or ADSs within the United States to a U.S. Holder (other than U.S. Holders that are exempt from backup withholding and properly certify their exemption) if the U.S. Holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with applicable backup withholding requirements. U.S. Holders who are required to establish their exempt status generally must provide a properly completed IRS Form W-9.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a U.S. Holder’s U.S. federal income tax liability. A U.S. Holder generally may obtain a refund of any amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS in a timely manner and furnishing any required information. Each U.S. Holder is advised to consult with its tax advisor regarding the application of the U.S. information reporting rules to their particular circumstances.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on display

We have previously filed with the SEC our registration statement on Form F-1 (File Number 333-238941), as amended, and a prospectus under the Securities Act with respect to our ordinary shares represented by the ADSs. We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F within four months after the end of each fiscal year. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules of the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. We will furnish Deutsche Bank Trust Company Americas, the depository of the ADSs, with all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders. The depository will make such notices, reports and communications available to holders of ADSs and, upon our request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depository from us. We will, upon request, furnish our shareholders with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP.

I. Subsidiary Information

Not applicable.

J. Annual Reports to Security Holders

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our exposure to interest rate risk primarily relates to our short-term loan. The interest rate of a short-term loan was mainly based on the one-year People's Bank of China ("PBOC") benchmark interest rates and a pre-determined margin. A hypothetical 1% increase or decrease in annual interest rates would increase or decrease interest expense by approximately RMB650 (US\$90) per year based on the outstanding short-term loan balance as of December 31, 2022. We have not been exposed to material risks due to changes in interest rates, and we have not used any derivative financial instruments to manage our interest risk exposure. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall.

Foreign Exchange Risk

Substantially all of our revenues and expenses are denominated in Renminbi. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge exposure to such risk. Although in general our exposure to foreign exchange risks should be limited, the value of your investment in the ADSs will be affected by the exchange rate between the U.S. dollar and the Renminbi because the value of our business is effectively denominated in Renminbi, while the ADSs will be traded in U.S. dollars.

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and the U.S. dollar in the future.

To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amounts available to us. In addition, a significant depreciation of the Renminbi against the U.S. dollar may significantly reduce the U.S. dollar equivalent of our earnings or losses.

As of December 31, 2022, we had Renminbi-denominated cash and cash equivalents of RMB94.3 million. We estimate that a 10% appreciation or depreciation of Renminbi against the U.S. dollar based on the foreign exchange rate on December 30, 2021 would result in a change of our holding U.S. dollar equivalents of US\$1.4 million for cash and cash equivalents.

Customer Concentration Risk

The top three customers accounted for 39%, 34% and 23% of total revenues during the year ended December 31, 2020, and 36%, 35% and 21% of total revenues during the year ended December 31, 2021, and 39%, 31%, and 23% of total revenues during the year ended December 31, 2022. Three and four suppliers accounted for more than 10% each of cost of revenues during the years ended December 31, 2020 and 2021, respectively, and three suppliers accounted for more than 10% of cost of revenue for the year ended December 31, 2022.

Concentration of Credit Risk

Financial assets that potentially expose the Company to significant concentration of credit risk consist primarily of cash, accounts receivable, short-term investments and deposits. All of the Company's cash and short-term investments were held at reputable financial institutions with high-credit ratings. In the event of bankruptcy of one of these financial institutions, we may not be able to claim its cash and demand deposits back in full. The Company continues to monitor the financial strength of the financial institutions. There has been no recent history of default in relation to these financial institutions. Accounts receivable and deposits, unsecured and denominated in Renminbi, derived from or held by industry customers are exposed to credit risk. We manage credit risk of accounts receivable through ongoing monitoring of the outstanding balances.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares**Fees and Expenses**

Our ADS holders are required to pay the following service fees to the depositary bank, the Deutsche Bank Trust Company Americas, and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of your ADSs).

Service	Fees
To any person to which ADSs are issued or to any person to which a distribution is made in respect of ADS distributions pursuant to stock dividends or other free distributions of stock, bonus distributions, stock splits or other distributions (except where converted to cash)	Up to US\$0.05 per ADS issued
Cancellation of ADSs, including the case of termination of the deposit agreement	Up to US\$0.05 per ADS cancelled
Distribution of cash dividends	Up to US\$0.05 per ADS held
Distribution of cash entitlements (other than cash dividends) and/or cash proceeds from the sale of rights, securities and other entitlements	Up to US\$0.05 per ADS held
Distribution of ADSs pursuant to exercise of rights.	Up to US\$0.05 per ADS held
Distribution of securities other than ADSs or rights to purchase additional ADSs	Up to US\$0.05 per ADS held
Depositary services	Up to US\$0.05 per ADS held

As an ADS holder, you will also be responsible to pay certain fees and expenses incurred by the depositary bank and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of your ADSs) such as:

- Fees for the transfer and registration of ordinary shares charged by the registrar and transfer agent for the ordinary shares in the Cayman Islands (i.e., upon deposit and withdrawal of ordinary shares).
- Expenses incurred for converting foreign currency into U.S. dollars.
- Expenses for cable, telex and fax transmissions and for delivery of securities.
- Taxes and duties upon the transfer of securities, including any applicable stamp duties, any stock transfer charges or withholding taxes (i.e., when ordinary shares are deposited or withdrawn from deposit).
- Fees and expenses incurred in connection with the delivery or servicing of ordinary shares on deposit.
- Fees and expenses incurred in connection with complying with exchange control regulations and other regulatory requirements applicable to ordinary shares, deposited securities, ADSs and ADRs.
- Any applicable fees and penalties thereon.

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing Class A ordinary shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may collect any of its fees by deduction from any cash distribution payable (or by selling a portion of securities or other property distributable) to ADS holders that are obligated to pay those fees. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

From time to time, the depositary may make payments to us to reimburse us for costs and expenses generally arising out of establishment and maintenance of the ADS program, waive fees and expenses for services provided to us by the depositary or share revenue from the fees collected from ADS holders. In performing its duties under the deposit agreement, the depositary may use brokers, dealers, foreign currency dealers or other service providers that are owned by or affiliated with the depositary and that may earn or share fees, spreads or commissions.

The depositary may convert currency itself or through any of its affiliates and, in those cases, acts as principal for its own account and not as agent, advisor, broker or fiduciary on behalf of any other person and earns revenue, including, without limitation, transaction spreads, that it will retain for its own account. The revenue is based on, among other things, the difference between the exchange rate assigned to the currency conversion made under the deposit agreement and the rate that the depositary or its affiliate receives when buying or selling foreign currency for its own account. The depositary makes no representation that the exchange rate used or obtained in any currency conversion under the deposit agreement will be the most favorable rate that could be obtained at the time or that the method by which that rate will be determined will be the most favorable to ADS holders, subject to the depositary's obligations under the deposit agreement. The methodology used to determine exchange rates used in currency conversions is available upon request.

Fees and Other Payment Made by the Depositary to Us

From time to time, the depositary may make payments to us to reimburse us for costs and expenses generally arising out of establishment and maintenance of the ADS program, waive fees and expenses for services provided to us by the depositary or share revenue from the fees collected from ADS holders. For the year ended December 31, 2022, we did not receive reimbursement from the depositary.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Material Modifications to the Rights of Security Holders

See “Item 10. Additional Information” for a description of the rights of securities holders, which remain unchanged.

Use of Proceeds

The following “Use of Proceeds” information relates to the registration statement on Form F-1, as amended (File Number 333-238941), or the F-1 Registration Statement, in relation to our initial public offering of 3,788,100 ADSs representing 3,788,100 Class A ordinary shares, at an initial offering price of US\$10.00 per ADS. Our initial public offering closed in July 2020. Roth Capital Partners and Valuable Capital Limited were the representatives of the underwriters for our initial public offering.

We received net proceeds of approximately US\$32.5 million from our initial public offering, including the exercise of over-allotment option. Our expenses incurred and paid to others in connection with the issuance and distribution of the ADSs in our offering totaled US\$5.3 million, which included US\$2.5 million for underwriting discounts and commissions and US\$2.8 million for other expenses. None of the transaction expenses included payments to directors or officers of our company or their associates, persons owning more than 10% or more of our equity securities or our affiliates. None of the net proceeds from the initial public offering were paid, directly or indirectly, to any of our directors or officers or their associates, persons owning 10% or more of our equity securities or our affiliates.

For the period from July 9, 2020, the date that the Form F-1 Registration Statement was declared effective by the SEC, to the date of this annual report, we used approximately US\$14.0 million of the net proceeds from our initial public offering to expand our business, fund potential strategic acquisitions and fund our working capital. We have placed the remaining net proceeds from our initial public offering in wealth management products for principal preservation purposes. We still intend to continue to use the net proceeds from our initial public offering as disclosed in our registration statements on Form F-1.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act.

Based upon that evaluation, our management, with the participation of our chief executive officer and chief financial officer, has concluded that, as of December 31, 2022, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Management’s Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of its published consolidated financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules promulgated by the SEC, our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2022. In making this assessment, it used the criteria established within the Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, our management has concluded that, as of December 31, 2022, our internal control over financial reporting was effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Ms. Jie Jiao, an independent director (under the standards set forth in Rule 5605(a) (2) of the Nasdaq Stock Market Rules and Rule 10A-3 under the Exchange Act) and the chairman of our audit committee, is our audit committee financial expert.

ITEM 16B. CODE OF ETHICS

Our board of directors has adopted our code of conduct and ethics, a code that applies to members of the board of directors including its chairman and other senior officers, including the chief executive officer, the chief financial officer and the chief operations officer. This code is publicly available on our website at <https://ir.quhuo.cn/>.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Ernst & Young Hua Ming LLP and Marcum Asia CPAs LLP, our independent registered public accounting firms, for the years indicated. Save as disclosed below, we did not pay any other fees to our independent registered public accounting firm during the periods indicated below.

	2021	2022
	(RMB in thousands)	
Audit fees ⁽¹⁾		
Marcum Asia CPAs LLP	—	3,810
Ernst & Young Hua Ming LLP	7,200	990
Tax fees ⁽²⁾		
Ernst & Young Hua Ming LLP	420	300

(1) “Audit fees” means the aggregate fees incurred in each of the fiscal years listed for professional services rendered by our principal auditor for the audit or review of our annual financial statements or quarterly financial information and review of documents filed with the SEC.

(2) “Tax fees” means the aggregate fees incurred in each of the fiscal years listed for professional services rendered by our principal auditors for tax compliance and tax planning.

Our audit committee is responsible for pre-approving all audit and non-audit services provided by Ernst & Young Hua Ming LLP, Marcum Asia CPAs LLP and their respective affiliates.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

None.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

On October 31, 2022, we dismissed Ernst & Young Hua Ming LLP, or EY, as our independent registered public accounting firm and engaged Marcum Asia CPAs LLP, or Marcum Asia, as our independent registered public accounting firm on the same date, to audit our consolidated financial statements as of and for the fiscal year ended December 31, 2022. The appointment of Marcum Asia was approved by our audit committee and board of directors on October 31, 2022, effective immediately.

The report of EY on our consolidated financial statements as of and for the fiscal years ended December 31, 2020 and 2021 did not contain any adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope, or accounting principles.

During the fiscal years ended December 31, 2021 and 2020 and the subsequent interim period through October 31, 2022, there were no (1) disagreements, as defined in Item 16F(a)(1)(iv) of Form 20-F and the related instructions, between the Company and EY on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of EY, would have caused EY to make reference to the subject matter of the disagreements in connection with its reports on the consolidated financial statements, or (2) reportable events as defined in Item 16F(a)(1)(v) of Form 20-F other than the material weakness reported in our 2020 annual report on Form 20-F filed with the SEC on May 17, 2021. Specifically, the material weakness identified as of December 31, 2020 was the Company's lack of sufficient accounting and financial reporting personnel with requisite knowledge and experience in application of U.S. GAAP and SEC rules. Our audit committee discussed the reportable event mentioned above with EY. EY is authorized to fully respond to the inquiries of Marcum Asia on the reportable event.

We provided EY with a copy of the foregoing disclosure and requested that EY furnish us with a letter addressed to the SEC stating whether it agrees with the above statements and, if not, stating the respects in which it does not agree. A copy of EY's letter, dated April 20, 2023, is attached as Exhibit 15.4 of this annual report on Form 20-F.

During our two most recent fiscal years ended December 31, 2021 and 2020 and any subsequent interim period prior to the engagement of Marcum Asia on October 31, 2022, neither we nor anyone on our behalf has consulted with Marcum Asia on either (1) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, and neither a written report nor oral advice was provided to us by Marcum Asia that Marcum Asia concluded was an important factor considered by the Company in reaching a decision as to any accounting, auditing or financial reporting issue, or (2) any matter that was the subject of a disagreement, as that term is defined in Item 16F(a)(1)(iv) of Form 20-F (and the related instructions thereto) or a reportable event as set forth in Item 16F(a)(1)(v) of Form 20-F.

ITEM 16G. CORPORATE GOVERNANCE

As a Cayman Islands company listed on Nasdaq, we are subject to the Nasdaq corporate governance listing standards. However, the Nasdaq Stock Market Rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the Nasdaq corporate governance listing standards. Certain corporate governance practices in the Cayman Islands, which is our home country, differ significantly from requirements for companies incorporated in other jurisdictions such as the United States. To the extent that we choose to follow home country practice with respect to corporate governance matters, our shareholders may be afforded less protection than they otherwise would under rules and regulations applicable to U.S. domestic issuers. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Governance— As an exempted company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices for corporate governance matters that differ significantly from the Nasdaq corporate governance listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with the corporate governance listing standards."

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

EY, a registered public accounting firm that the PCAOB determined was unable to investigate or inspect fully because of the positions taken by PRC authorities until December 2022 when the PCAOB vacated its previous determination, issued an audit report for our consolidated financial statements as of and for the three years ended December 31, 2021. On October 6, 2022, the SEC conclusively named us as a “commission-identified issuer” following the filing of our annual report on Form 20-F for the year ended December 31, 2021. On October 31, 2022, we dismissed EY as our independent registered public accounting firm and engaged Marcum Asia as our independent registered public accounting firm on the same date, to audit our consolidated financial statements as of and for the fiscal year ended December 31, 2022. Marcum Asia has not been determined by the PCAOB as being unable to be inspected or investigated completely. Our company is incorporated in the Cayman Islands. The VIE and other operating entities being consolidated in our financial statements, or our consolidated foreign operating entities, are incorporated or otherwise organized in the PRC.

To the best of our knowledge, no governmental entity in the PRC or the Cayman Islands owns any shares of our company or any of our consolidated foreign operating entities.

To the best of our knowledge, no governmental entity in the PRC (i.e. the applicable foreign jurisdiction with respect to EY) has a controlling financial interest with respect to our company or any of our consolidated foreign operating entities.

None of the members of the board of directors of our company or any of our consolidated foreign operating entities is any official of the Chinese Communist Party.

Neither the memorandum and articles of association of our company nor the articles of incorporation (or equivalent organizing document) of our consolidated foreign operating entities contains any charter of the Chinese Communist Party.

ITEM 16J. INSIDER TRADING POLICIES

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

Our consolidated financial statements are included at the end of this annual report.

ITEM 19. EXHIBITS

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
1.1	Second Amended and Restated Memorandum and Articles of Association of the Registrant, as currently in effect (incorporated herein by reference to Exhibit 1.1 to our annual report on Form 20-F (file No. 001-39354) filed with the Securities and Exchange Commission on May 17, 2021).
2.1	Registrant's specimen American depositary receipt (included in Exhibit 2.3) (incorporated herein by reference to Exhibit 2.1 to our annual report on Form 20-F (file No. 001-39354) filed with the Securities and Exchange Commission on May 17, 2021).
2.2	Registrant's specimen certificate for Class A ordinary shares (incorporated herein by reference to Exhibit 4.1 to our registration statement on Form F-1 (file No. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).
2.3	Deposit agreement by and among the Registrant, the depositary and holders of the American Depositary Shares evidenced by American Depositary Receipts issued thereunder (incorporated herein by reference to Exhibit 2.3 to our annual report on Form 20-F (file No. 001-39354) filed with the Securities and Exchange Commission on May 17, 2021).
2.4	Shareholders Agreement, among the Registrant and other parties thereto dated August 23, 2019 (incorporated herein by reference to Exhibit 4.4 to our registration statement on Form F-1 (file no. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).
2.5*	Description of Securities
4.1	English translation of Exclusive Business Cooperation Agreement dated August 23, 2019 among Beijing Quhuo Information Technology Co., Ltd., Beijing Quhuo Technology Co., Ltd. and other parties thereto (incorporated herein by reference to Exhibit 10.1 to our registration statement on Form F-1 (file No. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).
4.2	English translation of Equity Pledge Agreements dated August 23, 2019 among Beijing Quhuo Information Technology Co., Ltd., Beijing Quhuo Technology Co., Ltd. and Ms. Lili Sun (incorporated herein by reference to Exhibit 10.2 to our registration statement on Form F-1 (file No. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).
4.3	English translation of Equity Pledge Agreements dated August 23, 2019 among Beijing Quhuo Information Technology Co., Ltd., Beijing Quhuo Technology Co., Ltd. and Mr. Shuyi Yang (incorporated herein by reference to Exhibit 10.3 to our registration statement on Form F-1 (file No. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).
4.4	English translation of Equity Pledge Agreements dated August 23, 2019 among Beijing Quhuo Information Technology Co., Ltd., Beijing Quhuo Technology Co., Ltd. and Mr. Zhen Ba (incorporated herein by reference to Exhibit 10.4 to our registration statement on Form F-1 (file No. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).
4.5	English translation of Equity Pledge Agreements dated August 23, 2019 among Beijing Quhuo Information Technology Co., Ltd., Beijing Quhuo Technology Co., Ltd. and Mr. Tongtong Li (incorporated herein by reference to Exhibit 10.5 to our registration statement on Form F-1 (file No. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).
4.6	English translation of Equity Pledge Agreements dated August 23, 2019 among Beijing Quhuo Information Technology Co., Ltd., Beijing Quhuo Technology Co., Ltd. and Ningbo Maiken Investment Management LLP (incorporated herein by reference to Exhibit 10.6 to our registration statement on Form F-1 (file No. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).
4.7	English translation of Exclusive Call Option Agreement dated August 23, 2019 among the Beijing Quhuo Information Technology Co., Ltd., Beijing Quhuo Technology Co., Ltd. and other parties thereto (incorporated herein by reference to Exhibit 10.7 to our registration statement on Form F-1 (file No. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).
4.8	English translations of Powers of Attorney dated August 23, 2019 granted by shareholders of Beijing Quhuo Technology Co., Ltd. (incorporated herein by reference to Exhibit 10.8 to our registration statement on Form F-1 (file No. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).

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4.9	<u>English translation of Shareholder Undertaking Letter dated August 23, 2019 granted by Mr. Leslie Yu and Ms. Lili Sun (incorporated herein by reference to Exhibit 10.9 to our registration statement on Form F-1 (file No. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).</u>
4.10	<u>English translation of Shareholder Undertaking Letter dated August 23, 2019 granted by Mr. Shuyi Yang (incorporated herein by reference to Exhibit 10.10 to our registration statement on Form F-1 (file No. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).</u>
4.11	<u>English translation of Shareholder Undertaking Letter dated August 23, 2019 granted by Mr. Zhen Ba (incorporated herein by reference to Exhibit 10.11 to our registration statement on Form F-1 (file No. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).</u>
4.12	<u>English translation of Shareholder Undertaking Letter dated August 23, 2019 granted by Mr. Tongtong Li (incorporated herein by reference to Exhibit 10.12 to our registration statement on Form F-1 (file No. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).</u>
4.13	<u>English translation of Confirmation Letter dated August 23, 2019 granted by Mr. Leslie Yu (incorporated herein by reference to Exhibit 10.13 to our registration statement on Form F-1 (file No. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).</u>
4.14	<u>English translations of Spousal Consent Letter granted by the spouse of Mr. Leslie Yu (incorporated herein by reference to Exhibit 10.14 to our registration statement on Form F-1 (file No. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).</u>
4.15	<u>English translations of Spousal Consent Letter granted by the spouse of Mr. Shuyi Yang (incorporated herein by reference to Exhibit 10.15 to our registration statement on Form F-1 (file No. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).</u>
4.16	<u>English translations of Spousal Consent Letter granted by the spouse of Mr. Zhen Ba (incorporated herein by reference to Exhibit 10.16 to our registration statement on Form F-1 (file No. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).</u>
4.17	<u>English translations of Spousal Consent Letter granted by the spouse of Mr. Tongtong Li (incorporated herein by reference to Exhibit 10.17 to our registration statement on Form F-1 (file No. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).</u>
4.18	<u>Financial Support Undertaking Letter issued by the Registrant to Beijing Quhuo Technology Co., Ltd., dated August 23, 2019 (incorporated herein by reference to Exhibit 10.18 to our registration statement on Form F-1 (file No. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).</u>
4.19	<u>English translation of Form of Delivery Services Agreement between the Registrant and Meituan (incorporated herein by reference to Exhibit 10.19 to our registration statement on Form F-1 (file No. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).</u>
4.20	<u>English translation of Form of Delivery Services Agreement between the Registrant and Ele.me (incorporated herein by reference to Exhibit 10.20 to our registration statement on Form F-1 (file No. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).</u>
4.21	<u>Form of Employment Agreement between the Registrant and the executive officers of the Registrant (incorporated herein by reference to Exhibit 10.21 to our registration statement on Form F-1 (file No. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).</u>
4.22	<u>Form of Indemnification Agreement between the Registrant and its directors and executive officers (incorporated herein by reference to Exhibit 10.22 to our registration statement on Form F-1 (file No. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).</u>
4.23	<u>Share Incentive Plan (incorporated herein by reference to Exhibit 10.23 to our registration statement on Form F-1 (file No. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).</u>
4.24	<u>English translation of Investment Agreement between the Registrant and Lailai Information Technology (Shenzhen) Co., Ltd. dated October 12, 2021 (incorporated herein by reference to Exhibit 4.24 to our annual report on Form 20-F (file No. 001-39354) filed with the Securities and Exchange Commission on May 17, 2021).</u>
8.1*	<u>List of subsidiaries and affiliated entities of the Registrant</u>
11.1	<u>Code of business conduct and ethics (incorporated herein by reference to Exhibit 99.1 to our registration statement on Form F-1 (file No. 333-238941), as amended, initially filed with the Securities and Exchange Commission on June 4, 2020).</u>
12.1*	<u>CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
12.2*	<u>CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
13.1**	<u>CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
13.2**	<u>CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>

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15.1*	Consent of Commerce & Finance Law Offices
15.2*	Consent of Marcum Asia CPAs LLP
15.3*	Consent of Ernst & Young Hua Ming LLP
15.4*	Letter from Ernst & Young Hua Ming LLP to the Securities and Exchange Commission
15.5	Consent of Frost & Sullivan (incorporated by reference of Exhibit 99.3 of our Registration Statement on Form F-1 (file No. 333-238941) filed with the Securities and Exchange Commission on June 4, 2020
15.6*	Submission under Item 16I(a) of Form 20-F in relation to the Holding Foreign Companies Accountable Act
101.INS*	Inline XBRL Instance Document- the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* Filed with this annual report on Form 20-F.

** Furnished with this annual report on Form 20-F.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

QUHUO LIMITED

By: /s/ Leslie Yu

Name: Leslie Yu

Title: Chief Executive Officer

Date: April 20, 2023

QUHUO LIMITED

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Consolidated Balance Sheets as of December 31, 2021 and 2022	F-4
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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Quhuo Limited

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Quhuo Limited (the Company) as of December 31, 2021, the related consolidated statements of comprehensive loss, changes in shareholders' (deficit)/equity and cash flows for each of the two years in the period ended December 31, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young Hua Ming LLP

We served as the Company's auditor from 2019 to 2022.

Shanghai, The People's Republic of China

September 9, 2022

Report of Independent Registered Public Accounting Firm (PCAOB ID 5395)

To the Shareholders and the Board of Directors of Quhuo Limited

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Quhuo Limited (the Company) as of December 31, 2022, the related consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the year ended December 31, 2022, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for year ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provide a reasonable basis for our opinion.

/s/ Marcum Asia CPAs LLP

We have served as the Company's auditor since 2022.

Beijing, PRC
April 20, 2023

QUHUO LIMITED
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

	Notes	As of December 31,		
		2021	2022	2022
		RMB	RMB	US\$
ASSETS:				
Current assets:				
Cash		28,593	95,444	13,838
Restricted cash		2,315	5,579	809
Short-term investments	6	178,830	64,355	9,331
Accounts receivable, net	7	510,683	495,046	71,775
Prepayments and other current assets	8	42,228	54,921	7,963
Amounts due from related parties	23	4,787	3,876	562
Total current assets		767,436	719,221	104,278
Non-current assets:				
Property and equipment, net	9	14,914	11,450	1,660
Right-of-use assets, net	10	7,964	5,562	806
Intangible assets, net	11	124,259	101,603	14,731
Goodwill	12	66,753	65,481	9,494
Deferred tax assets	18	6,729	12,000	1,740
Other non-current assets	13	157,320	140,300	20,342
Total non-current assets		377,939	336,396	48,773
Total assets		1,145,375	1,055,617	153,051
LIABILITIES AND SHAREHOLDERS' EQUITY:				
Current liabilities (including current liabilities of the consolidated VIE without recourse to the primary beneficiary of RMB695,081 and RMB489,301(US\$70,942) as of December 31, 2021 and 2022, respectively):				
Accounts payable		334,083	293,281	42,522
Accrued expenses and other current liabilities	14	120,971	125,949	18,261
Short-term debt	15	148,441	65,434	9,487
Short-term lease liabilities	10	5,317	3,276	475
Amounts due to related parties	23	245	—	—
Total current liabilities		609,057	487,940	70,745
Non-current liabilities (including non-current liabilities of the consolidated VIE without recourse to the primary beneficiary of RMB52,883 and RMB 70,100 (US\$10,164) as of December 31, 2021 and 2022, respectively):				
Long-term debt	15	3	1,303	189
Long-term lease liabilities	10	1,424	1,103	160
Deferred tax liabilities	18	753	814	118
Other non-current liabilities	16	50,703	66,880	9,697
Total non-current liabilities		52,883	70,100	10,164
Total liabilities		661,940	558,040	80,909
Commitments and contingencies	22			

QUHUO LIMITED
CONSOLIDATED BALANCE SHEETS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

	Notes	As of December 31,		
		2021 RMB	2022 RMB	2022 US\$
Shareholders’ equity:				
Ordinary shares (US\$0.0001 par value; 300,000,000 Class A ordinary shares authorized, 46,379,583 and 55,379,583 shares issued, and 40,377,645 and 48,639,660 shares outstanding as of December 31, 2021 and 2022, respectively; 6,296,630 and 6,296,630 Class B ordinary shares authorized, issued and outstanding as of December 31, 2021 and 2022, respectively; 193,703,370 and 193,703,370 shares (undesignated) authorized, nil and nil shares (undesignated) issued and outstanding as of December 31, 2021 and 2022, respectively)	19	37	43	6
Additional paid-in capital		1,855,897	1,885,637	273,392
Accumulated deficit		(1,366,734)	(1,379,864)	(200,061)
Accumulated other comprehensive loss		(18,259)	(4,654)	(675)
Total Quhuo Limited shareholders’ equity		470,941	501,162	72,662
Non-controlling interests		12,494	(3,585)	(520)
Total shareholders’ equity		483,435	497,577	72,142
Total liabilities and shareholders’ equity		1,145,375	1,055,617	153,051

The accompanying notes are an integral part of these consolidated financial statements.

QUHUO LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

	Notes	For the year ended December 31,			
		2020 RMB	2021 RMB	2022 RMB	2022 US\$
Revenues	4	2,580,810	4,025,279	3,820,378	553,903
Cost of revenues		(2,388,299)	(3,849,682)	(3,567,690)	(517,266)
General and administrative		(202,963)	(240,749)	(213,592)	(30,968)
Research and development		(13,095)	(20,122)	(12,540)	(1,818)
Gain/(loss) on disposal of assets, net		3,243	(2,564)	13,975	2,026
Goodwill impairment		(336)	(51,971)	(4,882)	(708)
Total operating expenses		(213,151)	(315,406)	(217,039)	(31,468)
Operating (loss)/income		(20,640)	(139,809)	35,649	5,169
Interest income		824	644	690	100
Interest expense		(8,068)	(7,026)	(5,683)	(824)
Other income/(loss), net		49,218	(33,964)	(26,068)	(3,780)
Foreign exchange (loss)/gain		(1,510)	952	—	—
Income/(loss) before income tax		19,824	(179,203)	4,588	665
Income tax expense	18	(25,428)	(12,027)	(21,002)	(3,045)
Net loss		(5,604)	(191,230)	(16,414)	(2,380)
Net loss attributable to non-controlling interests		9,034	33,323	3,284	476
Net income/(loss) attributable to ordinary shareholders of Quhuo Limited		3,430	(157,907)	(13,130)	(1,904)
Earnings/(loss) per share:	20				
Basic		0.08	(3.60)	(0.23)	(0.03)
Diluted		0.07	(3.60)	(0.23)	(0.03)
Shares used in earnings/(loss) per share computation:	20				
Basic		28,282,187	43,914,204	56,007,723	56,007,723
Diluted		48,517,987	43,914,204	56,007,723	56,007,723

The accompanying notes are an integral part of these consolidated financial statements.

QUHUO LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

	Notes	For the year ended December 31,			
		2020	2021	2022	2022
		RMB	RMB	RMB	US\$
Other comprehensive (loss)/income:					
Profit and loss from fair value change through other comprehensive income, net of tax		—	(85)	—	—
Foreign currency translation adjustment		(13,612)	(3,331)	14,130	2,049
Comprehensive loss		(19,216)	(194,646)	(2,284)	(331)
Comprehensive loss attributable to non-controlling interests		9,034	33,323	3,284	476
Comprehensive (loss)/income attributable to ordinary shareholders of Quhuo Limited		(10,182)	(161,323)	1,000	145

QUHUO LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIT)/EQUITY
(Amounts in thousands of Renminbi ("RMB") and U.S. dollars ("US\$"),
except for number of shares and per share data)

	Number of outstanding ordinary shares	Ordinary shares RMB	Additional paid-in capital RMB	Accumulated deficit RMB	Accumulated other comprehensive loss *	Quhuo Limited shareholders' (deficit)/equity RMB	Non-controlling interests RMB	Total shareholders' (deficit)/equity RMB
Balance as of December 31, 2019	14,972,760	17	434,151	(1,212,257)	(1,231)	(779,320)	2,871	(776,449)
Net loss	—	—	—	3,430	—	3,430	(9,034)	(5,604)
Other comprehensive loss	—	—	—	—	(13,612)	(13,612)	—	(13,612)
Issuance of ordinary shares in connection with initial public offering, net of offering cost (note 19)	3,788,100	2	232,121	—	—	232,123	—	232,123
Conversion of redeemable convertible preferred shares	24,131,100	17	1,030,984	—	—	1,031,001	—	1,031,001
Non-controlling interest recognized from business combination (note 5)	—	—	—	—	—	—	52,705	52,705
Share-based compensation (note 17)	—	—	82,667	—	—	82,667	—	82,667
Balance as of December 31, 2020	42,891,960	36	1,779,923	(1,208,827)	(14,843)	556,289	46,542	602,831
Net loss	—	—	—	(157,907)	—	(157,907)	(33,323)	(191,230)
Other comprehensive loss	—	—	—	—	(3,416)	(3,416)	—	(3,416)
Issuance of ordinary shares in connection with business combination (note 5)	281,703	1	1,902	—	—	1,903	—	1,903
Acquisition of non-controlling interests	—	—	—	—	—	—	(725)	(725)
Exercise of employee share options	3,500,612	—	5,140	—	—	5,140	—	5,140
Share-based compensation (note 17)	—	—	68,932	—	—	68,932	—	68,932
Balance as of December 31, 2021	46,674,275	37	1,855,897	(1,366,734)	(18,259)	470,941	12,494	483,435
Net loss	—	—	—	(13,130)	—	(13,130)	(3,284)	(16,414)
Other comprehensive income	—	—	—	—	13,605	13,605	—	13,605
Acquisition of non-controlling interests (note 5)	9,000,000	6	10,999	—	—	11,005	(12,795)	(1,790)
Exercise of employee share options (note 17)	495,042	—	165	—	—	165	—	165
Cancellation of exercised options (note 17)	(1,233,027)	—	(1,186)	—	—	(1,186)	—	(1,186)
Share-based compensation (note 17)	—	—	19,762	—	—	19,762	—	19,762
Balance as of December 31, 2022	54,936,290	43	1,885,637	(1,379,864)	(4,654)	501,162	(3,585)	497,577
Balance as of December 31, 2022 in US\$		6	273,392	(200,061)	(675)	72,662	(520)	72,142

* Accumulative other comprehensive loss includes foreign currency translation adjustment and fair value adjustment of convertible loan for the year ended December 31, 2021 and 2022.

The accompanying notes are an integral part of these consolidated financial statements.

QUHUO LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

	Notes	For the year ended December 31,			
		2020 RMB	2021 RMB	2022 RMB	2022 US\$
Cash flows from operating activities					
Net loss		(5,604)	(191,230)	(16,414)	(2,380)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:					
Depreciation		6,257	5,233	7,513	1,089
Amortization		13,749	25,278	21,094	3,058
Goodwill impairment		336	51,971	4,882	708
Deferred income taxes	18	(740)	(4,333)	(5,209)	(755)
Share-based compensation	17	82,667	68,932	19,762	2,865
Non-cash operating lease expenses		4,805	—	—	—
(Gain)/loss on disposals of intangible assets		(2,918)	2,564	(13,975)	(2,026)
Changes in fair value of short-term investment		(35,527)	52,877	41,845	6,067
Others		2,167	9,646	2,221	322
Changes in operating assets and liabilities:					
Amounts due from related parties		18,392	—	—	—
Amounts due to related parties		—	—	(245)	(36)
Accounts receivable		(97,246)	(134,193)	13,098	1,899
Prepayments and other current assets		(8,167)	5,295	(5,929)	(860)
Other non-current assets		(6,639)	(22,635)	20,285	2,941
Accounts payable		31,848	65,144	(40,803)	(5,916)
Accrued expenses and other current liabilities		(1,585)	31,755	4,535	658
Lease liabilities		(5,402)	(193)	39	6
Income taxes payable		(2,878)	(4,693)	5,847	848
Other non-current liabilities		17,595	7,689	16,177	2,345
Net cash provided by (used in) operating activities		11,110	(30,893)	74,723	10,833
Cash flows from investing activities					
Purchase of short-term investments		(3,409,514)	(3,069,203)	(1,549,680)	(224,682)
Proceeds from sales of short-term investments		3,299,763	3,035,852	1,616,728	234,404
Proceeds from refund of short-term investments		—	—	5,582	809
Acquisitions of businesses, net of cash acquired	5	(27,528)	(3,360)	(5,010)	(726)
Other investing activities		(2,190)	(11,820)	1,521	221

QUHUO LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

	Notes	For the year ended December 31,			
		2020 RMB	2021 RMB	2022 RMB	2022 US\$
Cash flows from investing activities (continued)					
Purchase of property and equipment		(3,411)	(9,330)	(4,659)	(675)
Acquisitions of intangible assets		(58,982)	(71,402)	(8,089)	(1,173)
Proceeds from disposals of intangible assets		14,779	18,850	20,818	3,018
Net cash (used in) provided by investing activities		(187,083)	(110,413)	77,211	11,196
Cash flows from financing activities					
Proceeds from short-term debt		151,000	213,468	473,486	68,649
Repayments of short-term debt		(222,550)	(136,000)	(552,510)	(80,106)
Proceeds from long-term debt		94	—	—	—
Repayments of long-term debt		(8,633)	(8,795)	(3,116)	(452)
Payments of deferred IPO costs		(10,979)	—	—	—
Proceeds from initial public offering		244,161	—	—	—
Net cash provided by (used in) financing activities		153,093	68,673	(82,140)	(11,909)
Effect of exchange rate changes on cash and restricted cash		(144)	(214)	321	46
Net (decrease) increase in cash and restricted cash		(23,024)	(72,847)	70,115	10,166
Cash and restricted cash, at the beginning of year		126,779	103,755	30,908	4,481
Cash and restricted cash, at the end of year		103,755	30,908	101,023	14,647
Supplemental disclosures of cash flow information:					
Interest paid		8,139	6,169	5,723	830
Income tax paid		11,878	10,581	4,188	607
Supplemental disclosures of non-cash investing activities:					
Cash consideration for business acquisition included in current liabilities		4,328	—	—	—
Non-cash consideration for business acquisition	5	19,252	—	—	—
Contingent consideration for business acquisition included in other non-current liabilities	5	2,900	—	—	—
Operating lease liabilities arising from obtaining right-of-use assets		37,256	9,118	5,539	803
Non-monetary exchange of intangible assets		9,177	2,209	—	—

The accompanying notes are an integral part of these consolidated financial statements.

QUHUO LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

1. Organization, Consolidation and Principal Activities

Quhuo Limited (the “Company”, and where appropriate, the term “Company” also refers to its subsidiaries, variable interest entity, and subsidiaries of the variable interest entity as a whole) is an exempt company incorporated in the Cayman Islands with limited liability under the laws of the Cayman Islands on June 13, 2019. The Company, through its subsidiaries, variable interest entity, and subsidiaries of the variable interest entity, are principally engaged in providing end-to-end operational solutions to on-demand consumer service businesses in industries, including food and grocery delivery, bike-sharing, ride-hailing, housekeeping in the People’s Republic of China (the “PRC”). Quhuo Limited, is a holding company with no substantive operations of its own.

The Company commenced operations through Beijing Quhuo Technology Co., Ltd. in 2012. In preparation of its initial public offering (“IPO”) in the United States, the Company underwent a series of restructuring in 2019 (the “Restructuring”) in order to establish the Company as the parent company and Beijing Quhuo Technology Co., Ltd. (“Beijing Quhuo” or the “VIE”) as the variable interest entity of the Company. On June 14, 2019, the Company incorporated a wholly-owned subsidiary, Quhuo Investment Limited (“Quhuo BVI”) in the British Virgin Islands (“BVI”). On June 17, 2019, the Company incorporated another wholly-owned subsidiary, Quhuo Technology Investment (Hong Kong) Limited (“Quhuo HK”) in Hong Kong. On July 31, 2019, the Company incorporated a wholly-owned subsidiary, Beijing Quhuo Information Technology Co., Ltd. (“WFOE”) in the PRC.

On August 23, 2019 (the “Restructuring Date”), the Company obtained control of Beijing Quhuo through a series of contractual agreements among WFOE, the VIE, and the VIE’s registered shareholders (the “VIE Agreements”). Accordingly, the business operations of the VIE were transferred to the Company, and the Company issued a total of 24,475,310 ordinary shares (including 9,502,550 ordinary shares issued but deemed not outstanding and held by the Company’s share-based payment trust) as well as 1,335,370 of Series A preferred shares, 9,500,030 of Series B preferred shares, 5,107,720 of Series C-1 preferred shares, 2,377,370 of Series C-2 preferred shares, and 5,810,610 of Series D preferred shares as consideration.

As the shareholding in Beijing Quhuo immediately before the Restructuring was identical to the shareholding in the Company immediately after the Restructuring, the Restructuring was accounted for a transaction between entities under common ownership, in a manner similar to a pooling of interests. The accompanying consolidated financial statements were prepared as if the corporate structure of the Company had been in existence since the beginning of the periods presented. Furthermore, the Series A, Series B, Series C-1, Series C-2 and Series D preferred shares were recorded at fair value on the Restructuring Date and presented on a retroactive basis.

QUHUO LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

1. Organization, Consolidation and Principal Activities (continued)

As of December 31, 2022, the Company’s principal subsidiaries, VIE and subsidiaries of the VIE are as follows:

Entity	Date of incorporation/ acquisition	Place of incorporation	Percentage of direct or indirect ownership by the Company	Principal activities
Subsidiaries of the Company				
Quhuo Investment Limited (“Quhuo BVI”)	June 14, 2019	BVI	100 %	Investment holding
Quhuo Technology Investment (Hong Kong) Limited (“Quhuo HK”)	June 17, 2019	Hong Kong	100 %	Investment holding
Beijing Quhuo Information Technology Co., Ltd. (“WFOE”)	July 31, 2019	PRC	100 %	Development of computer software and applications
Variable interest entity				
Beijing Quhuo Technology Co., Ltd. (“Beijing Quhuo” or the “VIE”)	March 3, 2012	PRC	Nil	Development of computer software and applications; Investment holding
Subsidiaries of the VIE				
Shanghai Quhuo Network Technology Co., Ltd. (“Shanghai Quhuo”)	April 4, 2014	PRC	Nil	On-demand delivery
Ningbo Xinying Network Technology Co., Ltd. (“Ningbo Xinying”)	December 15, 2016	PRC	Nil	Bike-sharing maintenance
Nantong Runda Marketing Planning Co., Ltd. (“Nantong Runda”)	February 28, 2018	PRC	Nil	On-demand delivery
Shanghai Yijida Network Technology Co., Ltd. (“Shanghai Yijida”)	September 7, 2015	PRC	Nil	On-demand delivery
Ningbo Desheng Wanchun Network Technology Co., Ltd. (“Desheng Wanchun”)	December 21, 2016	PRC	Nil	Labor services
Ningbo Quhuo Network Technology Co., Ltd. (“Ningbo Quhuo”)	December 14, 2016	PRC	Nil	On-demand delivery
Ningbo Dagong Network Technology Co., Ltd. (“Ningbo Dagong”)	January 5, 2018	PRC	Nil	Bike-sharing maintenance
Jiangxi Youke Automobile Rental Service Co., Ltd. (“Jiangxi Youke”)	April 8, 2018	PRC	Nil	Ride-hailing
Hainan Xinying Technology Co., Ltd. (“Hainan Xinying”)	June 29, 2020	PRC	Nil	On-demand delivery
Hainan Quhuo Technology Co., Ltd. (“Hainan Quhuo”)	July 8, 2020	PRC	Nil	On-demand delivery
Haikou Chengtu Network Technology Co., Ltd. (“Haikou Chengtu”)	September 1, 2020	PRC	Nil	B&B Operation
Lailai Information Technology (Shenzhen) Co., Ltd. (“Shenzhen Lailai”)	November 1, 2020	PRC	Nil	Hotel Cleaning
Hainan Quxing Holdings Co., Ltd. (“Hainan Quxing”)	November 5, 2020	PRC	Nil	Freight service

As PRC laws and regulations prohibit and restrict foreign ownership of internet value-added businesses, the Company operates its business primarily through the VIE and the subsidiaries of the VIE. The Company, through the WFOE, entered into power of attorney agreements and an exclusive call option agreement with the nominee shareholders of the VIE that gave the WFOE the power to direct the activities that most significantly affect the economic performance of the VIE and to acquire the equity interests in the VIE when permitted by the PRC laws, respectively. Certain exclusive agreements were entered into with the VIE through the WFOE, which obligate the WFOE to absorb a majority of the risk of loss from the VIE’s activities and entitle the WFOE to receive a majority of its residual returns. In addition, the WFOE entered into an equity interest pledge agreement for equity interests in the VIE held by the nominee shareholders of the VIE. The Company also agreed to provide unlimited financial support to the VIE for its operations.

QUHUO LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

1. Organization, Consolidation and Principal Activities (continued)

Despite the lack of technical majority ownership, the Company has effective control of the VIE through the VIE Agreements and a parent-subsidiary relationship exists between the Company and the VIE. Through the VIE Agreements, the shareholders of the VIE effectively assigned all of their voting rights underlying their equity interest in the VIE to the Company. In addition, through the other exclusive agreements, which consist of exclusive call option agreement, exclusive business cooperation agreement, and equity interest pledge agreement, the Company, through its wholly-owned subsidiaries in the PRC, have the right to receive economic benefits from the VIE that could be potentially significant to the VIE. Lastly, through the financial support undertaking letter, the Company has the obligation to absorb losses of the VIE that could potentially be significant to the VIE. Therefore, the Company is considered the primary beneficiary of the VIE and consolidates the VIE and its consolidated subsidiaries as required by SEC Regulation S-X Rule 3A-02 and Accounting Standard Codification (“ASC”) topic 810, Consolidation (“ASC 810”).

The following is a summary of the VIE Agreements:

Power of Attorney Agreements

Pursuant to the power of attorney agreements signed between Beijing Quhuo’s nominee shareholders and the WFOE, each nominee shareholder irrevocably appointed the WFOE as its attorney-in-fact to exercise on each nominee shareholder’s behalf any and all rights that each nominee shareholder has in respect of its equity interest in Beijing Quhuo, including, but not limited to executing the exclusive right to exclusive call option agreement, the voting rights and the right to appoint directors and executive officers of Beijing Quhuo. This agreement is effective and irrevocable as long as the nominee shareholder remains a shareholder of Beijing Quhuo.

Exclusive Call Option Agreement

Pursuant to the exclusive call option agreement entered into between Beijing Quhuo’s nominee shareholders and the WFOE, the nominee shareholders irrevocably granted the WFOE a call option to request the nominee shareholders to transfer or sell any part or all of its equity interests in the, or any or all of the assets of the VIE, to the WFOE, or their designees. The purchase price of the equity interests in the VIE is equal to the minimum price required by PRC law. Without the WFOE’s prior written consent, the VIE and its nominee shareholders cannot amend its articles of association, increase or decrease the registered capital, sell or otherwise dispose of its assets or beneficial interests, create or allow any encumbrance on its assets or other beneficial interests and provide any loans or guarantees, or enter into any material contracts except those in the ordinary course of business. The nominee shareholders cannot request any dividends or other form of assets. If dividends or other form of assets were distributed, the nominee shareholders are required to transfer all received distribution to the WFOE or its designees. This agreement is not terminated until all of the equity interests of the VIE are transferred to the WFOE or the person(s) designated by the WFOE. None of the nominee shareholders have the right to terminate or revoke the agreement under any circumstance unless otherwise regulated by law.

Exclusive Business Cooperation Agreement

Pursuant to the exclusive business cooperation agreement entered into by the WFOE and Beijing Quhuo, the WFOE provides exclusive technical support and consulting services in return for fees based on 100% of Beijing Quhuo’s net profit, which is adjustable at the sole discretion of the WFOE. Without the WFOE’s consent, the VIE and its subsidiaries cannot procure services from any third party or enter into similar service arrangements with any other third party, other than the WFOE. In addition, the VIE granted the WFOE an exclusive right to purchase any or all of the business or assets of each of the profitable VIE and its subsidiaries at the lowest price permitted under PRC law. This agreement is irrevocable or can only be unilaterally revoked/amended by the WFOE.

QUHUO LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

1. Organization, Consolidation and Principal Activities (continued)

Equity Interest Pledge Agreement

Pursuant to the equity interest pledge agreements, Beijing Quhuo’s nominee shareholders represent all of the VIE’s equity interests have been pledged to the WFOE as continuing first priority security interest to guarantee the nominee shareholders’ and the VIE’s obligations under the power of attorney agreements, the exclusive call option agreement and the exclusive business cooperation agreement. The WFOE is entitled to collect dividends during the effective period of the share pledge unless it agrees otherwise in writing. If Beijing Quhuo or any of the nominee shareholders breach its contractual obligations, the WFOE will be entitled to certain rights regarding the pledged equity interests, including receiving proceeds from the auction or sale of all or part of the pledged equity interests of Beijing Quhuo in accordance with PRC law. None of the nominee shareholders may assign or transfer to any third party, distribute dividends and create or cause any security interest and any liability in whatsoever form to be created on, all or any part of the equity interests it holds in the VIE without the written consent of the WFOE. This agreement is not terminated until all of the technical support and consulting and service fees are fully paid under the exclusive business cooperation agreement and all of Beijing Quhuo’s obligations have been terminated under the other controlling agreements. The Company has registered the equity interest pledge with the relevant office of the administration for industry and commerce in accordance with the PRC Property Rights Law.

Financial support undertaking letter

Pursuant to the financial support undertaking letter, the Company is obligated to provide unlimited financial support to the VIE, to the extent permissible under the applicable PRC laws and regulations. The Company will not request repayment of the loans or borrowings if the VIE or its nominee shareholders do not have sufficient funds or are unable to repay.

Resolutions of directors of Quhuo Limited (the “Resolutions”)

The Board of Directors resolved that the Board of Directors or any person authorized by it shall cause the WFOE to exercise its rights under the power of attorney agreements and the exclusive call option agreement when the authorized officer designated by the Board of Directors determines that such exercise is in the best interests of the Company and the WFOE to do so.

In the opinion of the Company’s legal counsel, (i) the ownership structure of the PRC subsidiaries and the VIE, both currently and immediately after giving effect to the IPO, does not and will not violate applicable PRC laws and regulations; (ii) each of the VIE Agreements is valid, binding and enforceable in accordance with its terms and applicable PRC laws or regulations and will not violate applicable PRC laws or regulations; (iii) the financial support letter issued by the Company to the VIE, dated on August 23, 2019, and the resolutions contained in the Resolutions are valid in accordance with the articles of association of the Company.

However, there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. Accordingly, the PRC regulatory authorities may take a view that is contrary to or otherwise different from the opinion of the Company’s legal counsel. It is uncertain whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. If the Company is found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures.

QUHUO LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

1. Organization, Consolidation and Principal Activities (continued)

Resolutions of directors of Quhuo Limited (the “Resolutions”) (continued)

As of December 31, 2022, RMB104,561 of accounts receivable of the VIE were pledged or collateralized. Creditors of the VIE have no recourse to the general credit of the Company, who is the primary beneficiary of the VIE, through its 100% controlled subsidiary WFOE. The Company did not provide any financial or other support to the VIE other than what is obligated by the agreements described above. The table sets forth the assets and liabilities of the VIE’s included in the Company’s consolidated balance sheets:

	As of December 31,		
	2021 RMB	2022 RMB	2022 US\$
ASSETS:			
Current assets:			
Cash	19,463	87,579	12,698
Restricted cash	2,315	5,579	809
Short-term investments	68,568	2,500	362
Accounts receivable	510,683	495,046	71,775
Prepayments and other current assets	40,595	53,515	7,759
Inter-group balance due from Parent and WFOE	7,823	18	3
Amounts due from related parties	3,081	3,876	562
Total current assets	652,528	648,113	93,968
Non-current assets:			
Property and equipment, net	14,633	11,251	1,631
Intangible assets, net	124,259	101,603	14,731
Operating lease right-of-use assets, net	7,964	5,562	806
Goodwill	66,753	65,481	9,494
Deferred tax assets	6,729	12,000	1,740
Other non-current assets	157,296	140,272	20,338
Total non-current assets	377,634	336,169	48,740
Total assets	1,030,162	984,282	142,708
LIABILITIES:			
Current liabilities:			
Accounts payable	334,083	293,281	42,522
Accrued expenses and other current liabilities	119,307	68,821	9,978
Short-term debt	148,441	65,434	9,487
Short-term lease liabilities	5,317	3,276	475
Inter-group balance due to Parent and WFOE	87,688	58,489	8,480
Amounts due to related parties	245	—	—
Total current liabilities	695,081	489,301	70,942
Non-current liabilities:			
Deferred tax liabilities	753	814	118
Long-term debt	3	1,303	189
Long-term lease liabilities	1,424	1,103	160
Other non-current liabilities	50,703	66,880	9,697
Total non-current liabilities	52,883	70,100	10,164
Total liabilities	747,964	559,401	81,106

The VIE’s net asset balance was RMB282,198 and RMB 424,881 (US\$61,602) as of December 31, 2021 and 2022, respectively.

QUHUO LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

1. Organization, Consolidation and Principal Activities (continued)

Resolutions of directors of Quhuo Limited (the “Resolutions”) (continued)

The table sets forth the results of operations of the VIE included in the Company’s consolidated statements of comprehensive loss for the years ended December 31, 2020, 2021 and 2022, respectively:

	For the year ended December 31,			
	2020 RMB	2021 RMB	2022 RMB	2022 US\$
Revenue	2,580,810	4,025,279	3,820,378	553,903
Net income/(loss)	66,043	(120,539)	61,939	8,980

The table sets forth the cash flows of the VIE included in the Company’s consolidated statements of cash flows for the years ended December 31, 2020, 2021 and 2022, respectively:

	For the year ended December 31,			
	2020 RMB	2021 RMB	2022 RMB	2022 US\$
Net cash provided by (used in) operating activities	30,389	(27,699)	114,059	16,537
Net cash (used in) provided by investing activities	(56,535)	(112,604)	39,767	5,766
Net cash (used in) provided by financing activities	(7,119)	68,673	(82,140)	(11,909)
Effect of exchange rate changes on cash	(4)	—	(306)	(45)
Net (decrease) increase in cash	(33,269)	(71,630)	71,380	10,349

2. Summary of Significant Accounting Policies

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (“US GAAP”).

Principles of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries, the VIE and the subsidiaries of the VIE. All significant inter-company transactions and balances have been eliminated upon consolidation.

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenue and expenses during the reporting periods. Significant estimates and assumptions reflected in the Company’s consolidated financial statements include, but are not limited to, allowance for doubtful accounts for accounts receivable, fair value of short-term investment, useful lives of property, equipment and intangible assets, incremental borrowing rate (“IBR”) applied in lease liabilities, impairment of long-lived assets, intangible assets and goodwill, purchase price allocation and fair value contingent consideration with respect to business combinations, valuation allowance for deferred tax assets, share-based compensation and fair value of intangible assets acquired associated with non-monetary transactions. Management bases the estimates on historical experience and various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could materially differ from those estimates.

QUHUO LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

2. Summary of Significant Accounting Policies (continued)

Foreign currency

The functional currency of the Company, Quhuo BVI and Quhuo HK is the United States Dollars (“US\$”). The functional currency of WFOE, the VIE and subsidiaries of the VIE located in the PRC is Renminbi (“RMB”). The Company uses the RMB as its reporting currency.

Transactions denominated in foreign currencies are re-measured into the functional currency at the exchange rates prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are re-measured at the exchange rates prevailing at the balance sheet date. Exchange gains and losses resulting from remeasurement are included in the consolidated statements of comprehensive loss.

The Company uses the average exchange rate for the year and the exchange rate at the balance sheet date to translate the operating results and financial position, respectively. Translation differences are recorded in accumulated other comprehensive loss, a component of shareholders’ equity.

Convenience translation

Amounts in US\$ are presented for the convenience of the reader and are translated at the noon buying rate of US\$1.00 to RMB6.8972 on December 31, 2022 in the City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at such rate.

Cash, cash equivalents and restricted cash

Cash and cash equivalents primarily consist of cash on hand, demand deposits and time deposits which are highly liquid. The Company considers highly liquid investments that are readily convertible to known amounts of cash and with original maturities from the date of purchase of three months or less to be cash equivalents. All cash and cash equivalents are unrestricted as to withdrawal and use.

Restricted cash mainly represents cash reserved in a bank account for legal liability.

Accounts receivable and allowance for doubtful accounts

Accounts receivable are carried at net realizable value. An allowance for doubtful accounts is recorded when collection of the full amount is no longer probable. In evaluating the collectability of receivable balances, the Company considers specific evidence including the aging of the receivable, the customer’s payment history, its current credit-worthiness and current economic trends. Accounts receivable are written off after all collection efforts have ceased.

Short-term investments

Short-term investments consist of investments in structured notes with original maturities of greater than three months, but less than twelve months and investment in alternative investment fund, which is measured using the net asset value (NAV) per share as a practical expedient. The investment in the fund is redeemable on demand, subject to 30 days advance notice period.

QUHUO LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

2. Summary of Significant Accounting Policies (continued)

Fair value measurements

Financial instruments of the Company primarily include cash, short-term investments, accounts receivable, other receivables, accounts payable and accrued liabilities, other receivables, amounts due from and due to related parties, long-term investments, deposits, equity consideration payable, contingent consideration payable, short-term debt and long-term debt. The Company applies ASC 820, Fair Value Measurements and Disclosures (“ASC 820”), in measuring fair value. ASC 820 defines fair value, establishes a framework for measuring fair value and requires disclosures to be provided on fair value measurement. The short-term investments are measured at fair value. Equity method investments have no quoted market prices and it is not practicable to estimate their fair value without incurring excessive costs. The carrying amounts of the remaining financial instruments, except for long-term debt and deposits, approximate their fair values because of their short-term maturities.

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1-Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2-Include other inputs that are directly or indirectly observable in the marketplace.

Level 3-Unobservable inputs which are supported by little or no market activity.

ASC 820 describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

Property and equipment, net

Property and equipment are stated at cost less accumulated depreciation and impairment. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Category	Estimated Useful Lives
Furniture	5 years
Electronic equipment	3 years
Vehicles	5 years
Leasehold improvement	Over the shorter of the terms or the estimated useful lives

Repair and maintenance costs are charged to expense as incurred. Retirements, sales and disposals of assets are recorded by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts with any resulting gain or loss reflected in the consolidated statements of comprehensive loss.

QUHUO LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

2. Summary of Significant Accounting Policies (continued)

Intangible assets, net

Intangible assets are carried at cost less accumulated amortization and any recorded impairment. Intangible assets with finite useful lives are amortized using a straight-line method of amortization that reflects the estimated pattern in which the economic benefits of the intangible asset are to be consumed. The estimated useful life for the intangible assets is as follows:

Category	Estimated Economic Lives
Customer relationships	4-8 years
Purchased software	3 years
Technology	5 years

Impairment of long-lived assets other than goodwill

The Company evaluates its long-lived assets, including property and equipment and intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. When these events occur, the Company evaluates the recoverability of long-lived assets by comparing their carrying amount to the future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets, the Company recognizes an impairment loss based on the excess of the carrying amount of the assets over their fair value. Fair value is generally determined by discounting the cash flows expected to be generated by the assets when the market prices are not readily available. The Company also recorded RMB53, RMB4,240 and nil impairment charges related to intangibles assets for the years ended December 31, 2020, 2021 and 2022, respectively.

Business combination

The Company accounts for its business combinations using the purchase method of accounting in accordance with ASC 805, Business Combinations (“ASC 805”). The purchase method of accounting requires that the Company allocate the fair value of purchase consideration to the separately identifiable tangible and intangible assets acquired as well as liabilities assumed based on their estimated fair values. The consideration transferred in an acquisition includes the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued as well as the contingent consideration and all contractual contingencies as of the acquisition date. The excess of the total of cost of acquisition, over the fair value of the identifiable net assets of the acquiree, is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the businesses acquired, the difference is recognized directly in earnings. Transaction costs directly attributable to the acquisitions are expensed as incurred.

The determination and allocation of fair values to the identifiable assets acquired, liabilities assumed, and non-controlling interests is based on various assumptions and valuation methodologies requiring considerable judgment from management. Significant estimates include but are not limited to future expected cash flows from acquired assets, assumptions on useful lives, discount rates and terminal values. The Company’s estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. The Company determines discount rates to be used based on the risk inherent in the related activity’s current business model and industry comparisons. Terminal values are based on the expected life of assets, forecasted life cycle and forecasted cash flows over that period.

Goodwill

In accordance with ASC 350, Intangibles-Goodwill and Others (“ASC 350”), the Company assigns and assesses goodwill for impairment at the reporting unit level. A reporting unit is an operating segment or one level below the operating segment. Goodwill was allocated to the reporting units that are expected to benefit from the business combinations.

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2. Summary of Significant Accounting Policies (continued)

Goodwill (continued)

Under ASC 350, goodwill is not amortized but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that it might be impaired. The Company early adopted ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (“ASU 2017-04”), pursuant to which the Company will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a goodwill allocated to the reporting unit’s carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The Company assesses qualitative factors such as business changes, economic outlook, financial trends and forecast, growth rates, industry data and other relevant qualitative factors to determine if it’s more-likely-than-not that the goodwill might be impaired and whether it’s necessary to perform a quantitative goodwill impairment. If the qualitative factors indicate a potential impairment, the Company compares the carrying amount of a reporting unit to its fair value, which is based on a discounted future cash flow approach. The Company recognized goodwill impairment charge of RMB336 and RMB51,971 and RMB4,882 (US\$708) for the years ended December 31, 2020, 2021 and 2022, respectively.

Revenue recognition

The Company generates its revenue from its on-demand consumer service business, primarily from On-demand delivery solution services provided to online ordering platforms operated by industry customers in the PRC and some other third parties. The Company also generates revenue from its bike-sharing maintenance solution services provided to bike-sharing companies, from ride-hailing solution services, from housekeeping solution services and from B&B operation solutions services.

On-demand delivery solutions

The Company enters into delivery service agreements to provide an integrated On-demand delivery solution services to industry customers. Industry customers divide their intracity food delivery network into a number of delivery areas. The Company is responsible for providing delivery solution services to fulfill all On-demand delivery orders on a daily and an if-needed basis within the specified delivery areas managed by the Company.

The Company manages its delivery rider groups to ensure there are sufficient delivery riders to fulfill all orders within each delivery area and assures that the quality of delivery solution services is in compliance with the industry customers’ service standards.

The Company concluded it has a stand ready obligation to fulfill all delivery orders and considered the series of services as a single performance obligation. The customers receive the benefit of the services and the Company has the right to payment as the services are performed over the term of the month-to-month contracts or the one-year contract. The Company charges delivery service fees to industry customers based on the number of orders completed at a fixed rate per order, subject to adjustments based on the monthly performance against key performance indicators set by each customer. Revenues are variable based on volume of delivery orders and monthly performance results. The Company recognizes revenue when the variable consideration becomes fixed at the end of the month when the uncertainty around the order volume and monthly performance evaluation is resolved.

The Company recognize consideration payable to the customer that is not in exchange for a distinct good or service as a reduction of revenue. When the Company makes an upfront payment to a customer for entering into a new contract, the substance of the payment is generally made to secure a relationship with the customer to generate future revenues. The upfront payment is initially recognized as a non-current asset and reduces revenues on a straight-line basis over anticipated relationship period. The anticipated relationship period is generally 8 years and will be reassessed on an annual basis.

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2. Summary of Significant Accounting Policies (continued)

Revenue recognition (continued)

Principal versus agent considerations

The Company evaluates whether it is appropriate to record the revenue on gross or net basis based on whether it acts as a principal or as an agent in each of its revenue streams.

The Company concluded it controls the service provided by delivery riders to customers as (i) the Company is primarily responsible for the fulfillment of the contract and assure services are acceptable by the customer; (ii) the Company needs to maintain sufficient delivery riders in order to deliver all On-demand delivery orders within delivery areas on a daily and an if-needed basis; (iii) the Company can direct the right to use delivery riders’ services as it chooses (e.g. to fulfill one customer’s contract or to fulfill another customer’s contract), and (iv) the Company has the ultimate discretion to set up the price of the service with customers.

Mobility service solutions

The Company’s mobility service solutions comprise ride-hailing solutions, shared-bike maintenance solutions, and freight service solutions.

Bike-sharing maintenance solution

The Company derives revenue from service fees paid by bike-sharing companies for daily maintenance services provided. The Company’s bike-sharing maintenance solution include maintaining orderliness of bikes, redistribution and transportation of idle bikes based on end users’ usage patterns within a designated area, and identification, transportation and repair of malfunctioning bikes.

The Company’s obligation is performing maintenance services on the term of a month-to-month contract and considered the series of services as a single performance obligation. The customer receives the benefit of the services and the Company has the right to payment as the service are performed. The Company charges maintenance service fees to the bike-sharing company based on the number of service hours and the number of bikes transported. Revenues are variable based on volume of service performed and the Company recognizes maintenance services revenue as the services are rendered.

Ride-hailing solution

The Company generated revenue from ride-hailing solution services primarily from car rental fees paid by ride-hailing drivers. The Company primarily derives revenues from rental fees under its car leasing agreements with ride-hailing drivers. These arrangements are classified as operating leases as defined within ASC 842, Leases (“ASC 842”). The Company recognizes revenue from these arrangements on a straight-line basis over the lease term.

In addition, the Company also provided ride-hailing management services to certain ride-hailing platform as an agent by connecting ride-hailing drivers and the ride-hailing platform. Accordingly, the Company recognizes revenue on a net basis. Revenue generated from this arrangement was not material for the period presented.

Freight service solution

The Company derives revenue from service fees paid by freight service companies for fulfilling end-to-end intra-city and long-distance transportation orders.

The Company’s obligation is performing freight services on the term of the one-year contract and considered the series of services as a single performance obligation. The customer receives the benefit of the services and the Company has the right to payment as the service are performed. The Company charges freight service fees to the industry customers based on the number of orders. Revenues are variable based on volume of service performed and the Company recognizes freight services revenue as the services are rendered.

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2. Summary of Significant Accounting Policies (continued)

Revenue recognition (continued)

Housekeeping and other solutions

The Company generated revenue from Housekeeping and other solutions primarily by providing standardized housekeeping service including cleaning and other services to industry customers that mainly comprise hotels and B&Bs and short-term rental properties in China. The Company charges monthly service fees to industry customers based on the service hours and/or the number of fulfilled orders and adjusted based on KPI performance. Revenues are variable based on the volume of service performed and the Company recognizes service revenue as the services are rendered.

Sales and other taxes

Pursuant to ASC 606-10-32-2A, the Company has elected to exclude from revenue sales taxes and other similar taxes that are both imposed on and are concurrent with revenue producing transactions. Therefore, revenues are recognized net of value added taxes (“VAT”).

Practical Expedients

The Company has utilized the practical expedient available under ASC 606-10-50-14 to not to disclose information about its remaining performance obligations because the Company’s contracts with customers generally have an expected duration less than one year.

Payment term

Payment terms and conditions vary by contract type, although the Company’s terms generally include a requirement of payment within 30 to 90 days since billing is issued. In instances where the timing of revenue recognition differs from the timing of payment, the Company has determined that its contracts do not include a significant financing component.

Cost of revenue

Cost of revenue consists primarily of labor costs related to the outsourced workforce, rental expenses, amortization of customer relationships, on-demand delivery supplies, workforce insurance costs, depreciation of property and equipment, service fees charged by 3rd parties and other costs directly attributable to the Company’s revenue generating activities.

Research and development

Research and development expenses primarily consist of salaries and benefits for research and development personnel engaging in software or platform development. The Company expenses research and development costs as they are incurred.

Employee benefit expenses

All eligible employees of the Company are entitled to staff welfare benefits including medical care, welfare subsidies, unemployment insurance and pension benefits through a PRC government-mandated multi-employer defined contribution plan. The Company is required to make contributions to the plan and accrues for these benefits based on certain percentages of the qualified employees’ salaries. The PRC government is responsible for the medical benefits and the pension liability to be paid to these employees and the Company’s obligations are limited to the amounts contributed. The Company has no further payment obligations once the contributions have been paid. The Company recorded employee benefit expenses of RMB10,784, RMB11,311 and RMB4,036 (US\$585) for the years ended December 31, 2020, 2021 and 2022, respectively.

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2. Summary of Significant Accounting Policies (continued)

VAT

Pursuant to the PRC tax legislation, VAT is generally imposed in lieu of business tax in the modern service industries, on a nationwide basis. VAT of 6% applies to revenue derived from the provision of On-demand delivery services and bike-sharing maintenance services. The Company is allowed to offset the qualified input VAT paid on taxable purchases against the output VAT chargeable on the modern services provided.

Leases

The Company elected the package of practical expedients permitted under the transition guidance within the new standard, which allowed the Group to not reassess 1) whether expired or existing contracts are or contain leases, 2) lease classification for any expired or existing leases as of the adoption date and 3) initial direct costs for existing leases as of the adoption date. The Company also made an accounting policy election to exempt short-term leases of 12 months or less from balance sheet recognition requirements associated with the new standard. The Company will recognize fixed rental payments for these short-term leases as a straight-line expense over the lease.

The Company leases offices and service stations to support its on-demand delivery solution services and leases vehicles to individual drivers for ride-hailing solution services. The Company classifies these leases as operating leases in accordance with ASC 842-10-25-2. The Company records an operating lease right-of-use (“ROU”) asset and lease liability based on the present value of the lease payments over the lease term at the commencement date. The Company excludes variable lease payments not dependent on an index or rate from the ROU asset and lease liability calculations and are recognize such amounts as expense in the period which it incurs the obligation for those. As the rate implicit in the Company’s leases are not readily available, the company estimates its incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments. The incremental borrowing rate reflects the fixed rate at which the Company could borrow on a collateralized basis, the amount of the lease payments in the same currency, for a similar term and in a similar economic environment. ROU assets include any lease prepayments and are reduced by lease incentives. The Company recognize operating lease expense on a straight-line basis over the lease term. Lease terms are based on the non-cancelable term of the lease and may contain options to extend the lease when it is reasonably certain that the Company will exercise.

Income taxes

The Company follows the liability method of accounting for income taxes in accordance with ASC 740, Income Taxes (“ASC 740”). Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. The Company records a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rate is recognized in tax expense in the period that includes the enactment date of the change in tax rate.

The Company accounted for uncertainties in income taxes in accordance with ASC 740. Interest and penalties arising from underpayment of income taxes shall be computed in accordance with the related PRC tax law. The amount of interest expense is computed by applying the applicable statutory rate of interest to the difference between the tax position recognized and the amount previously taken or expected to be taken in a tax return. Interest and penalties recognized in accordance with ASC 740 are classified in the consolidated statements of comprehensive loss as income tax expense.

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2. Summary of Significant Accounting Policies (continued)

Income taxes (continued)

In accordance with the provisions of ASC 740, the Company recognizes in its consolidated financial statements the impact of a tax position if a tax return position or future tax position is “more likely than not” to prevail based on the facts and technical merits of the position. Tax positions that meet the “more likely than not” recognition threshold are measured at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement. The Company’s estimated liability for unrecognized tax benefits, if any, will be recorded in the “other non-current liabilities” in the accompanying consolidated financial statements, and is periodically assessed for adequacy and may be affected by changing interpretations of laws, rulings by tax authorities, changes and/or developments with respect to tax audits, and expiration of the statute of limitations. The actual benefits ultimately realized may differ from the Company’s estimates. As each audit is concluded, adjustments, if any, are recorded in the Company’s consolidated financial statements. Additionally, in future periods, changes in facts, circumstances, and new information may require the Company to adjust the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recognized in the period in which the changes occur.

Share-based compensation

Awards granted to employees

The Company applies ASC 718, Compensation-Stock Compensation (“ASC 718”), to account for its employee share-based payments. In accordance with ASC 718, the Company determines whether an award should be classified and accounted for as a liability award or equity award. All the Company’s share-based awards to employees were classified as equity awards and are recognized in the consolidated financial statements based on their grant date fair values.

Awards granted to non-employees

The Company early adopted ASU No. 2018-7, Compensation-Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting (“ASU 2018-7”) on January 1, 2017 and applies ASC 718 to account for share-based payments for acquiring goods and services from non-employees.

The Company elected to recognize share-based compensation using the accelerated method, for all share-based awards granted with graded vesting based on service conditions and performance conditions. For share-based payment awards with market conditions, such market conditions are included in the determination of the estimated grant-date fair value. The Company early adopted ASU No. 2016-09, Compensation-Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting on January 1, 2017 and elected to account for forfeitures as they occur. The Company, with the assistance of an independent third-party valuation firm determined the fair value of the stock options granted to employees and non-employees. The binomial option pricing model was applied in determining the estimated fair value of the options granted to employees and non-employees.

Modification of awards

A change in the terms or conditions of the awards is accounted for as a modification of the award. Incremental compensation cost is measured as the excess, if any, of the fair value of the modified award over the fair value of the original award immediately before its terms are modified, measured based on the fair value of the awards and other pertinent factors at the modification date. For vested awards, the Company recognizes incremental compensation cost in the period the modification occurs. For unvested awards, the Company recognizes over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date. If the fair value of the modified award is lower than the fair value of the original award immediately before modification, the minimum compensation cost the Company recognizes is the cost of the original award.

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2. Summary of Significant Accounting Policies (continued)

Share-based compensation (continued)

Earnings/(loss) per share

Basic earnings/(loss) per share is computed by dividing net income/(loss) attributable to ordinary shareholders by the weighted average number of unrestricted ordinary shares outstanding during the year using the two-class method. Under the two-class method, net income/(loss) is allocated between ordinary shares and other participating securities based on their participating rights. The Company’s redeemable convertible preferred shares are participating securities. These participating securities do not contractually require the holders of such shares to participate in the Company’s losses. As such, net losses for the periods presented were not allocated to the Company’s participating securities. Diluted earnings/(loss) per share is calculated by dividing net income/(loss) attributable to ordinary shareholders as adjusted for the effect of dilutive ordinary equivalent shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary equivalent shares consist of the ordinary shares issuable upon the conversion of the Company’s redeemable convertible preferred shares using the if-converted method. The Company calculates the dilutive effect of ordinary share issuable upon the exercise of share options, using the treasury stock method. Ordinary share equivalents are excluded from the computation of diluted per share if their effects would be anti-dilutive.

Segment reporting

In accordance with ASC 280-10, Segment Reporting: Overall, the Company’s chief operating decision maker (“CODM”) has been identified as the Chief Executive Officer who reviews the consolidated results of operations when making decisions about allocating resources and assessing performance of the Company as a whole and hence, the Company has only one reportable segment. The Company does not distinguish between markets or segments for purposes of internal reporting. All of the Company’s revenues for the years ended December 31, 2020, 2021 and 2022 were generated from the PRC. As of December 31, 2021 and 2022, all of the long-lived assets of the Company are located in the PRC, and therefore, no geographical segments are presented.

Recent accounting pronouncements

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). ASU 2016-13 is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. This ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of the Group’s portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. In November 2019, the FASB issued ASU 2019-10, which extends the adoption date for certain registrants. The amendments in ASU 2016-13 are effective for fiscal years beginning after December 15, 2022, including interim periods within fiscal years beginning after December 15, 2023. In February 2020 the FASB issued ASU 2020-02 which updated SEC Staff Accounting Bulletin No. 119 providing interpretive guidance on methodology and supporting documentation for measuring credit losses. The Company is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

In March 2022, the FASB issued ASU 2022-02, Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosure. The amendments in this update respond to feedback after adoption of ASU No. 2016-13. This update eliminate the accounting guidance for troubled debt restructurings by creditors in Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors, while enhancing vintage disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. The Company have not adopted ASU 2016-03, early adoption is not permitted before an entity’s adoption of ASU 2016-13.

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2. Summary of Significant Accounting Policies (continued)

Recent accounting pronouncements (continued)

In June 2022, the FASB issued ASU 2022-03, Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions. FASB clarifies guidance on measuring fair value of equity securities subject to contractual sale restrictions. The amendments clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments also clarify that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. The Company is currently evaluating the impact on its financial statements of adopting this guidance.

3. Concentration of Risks

(a) Business, customer, political, social and economic risks

The Company participates in a dynamic and competitive industry and believes that changes in any of the following areas could have a material adverse effect on the Company’s future financial position, results of operations or cash flows: changes in the overall demand for services; competitive pressures due to new entrants; advances and new trends in new technologies and industry standards; changes in certain strategic relationships; regulatory considerations and risk associated with the Company’s ability to attract employees or workforce necessary to support its growth. The Company’s operations could also be adversely affected by significant political, regulatory, economic and social uncertainties in the PRC.

The top three customers accounted for 39%, 34% and 23% of total revenues during the year ended December 31, 2020, and 36%, 35% and 21% of total revenues during the year ended December 31, 2021, and 39%, 31%, and 23% of total revenues during the year ended December 31, 2022. Three and four suppliers accounted for more than 10% each of cost of revenues during the years ended December 31, 2020 and 2021, respectively, and three suppliers accounted for more than 10% of cost of revenue for the year ended December 31, 2022.

(b) Interest rate risk

The Company is exposed to interest rate risk related to its short-term loan. The interest rate of a short-term loan was mainly based on the one year People’s Bank of China (“PBOC”) benchmark interest rates and a pre-determined margin. A hypothetical 1% increase or decrease in annual interest rates would increase or decrease interest expense by approximately RMB 650 (US\$90) per year based on the outstanding short-term loan balance at December 31, 2022.

(c) Foreign currency exchange rate risk

From July 21, 2005, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. For RMB against U.S. dollar, there was depreciation of approximately 6.5%, depreciation of approximately 2.3% and appreciation of approximately 8.2% during the years ended December 31, 2020, 2021 and 2022, respectively. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future. To the extent that the Company needs to convert U.S. dollar into RMB for capital expenditures and working capital and other business purposes, appreciation of RMB against U.S. dollar would have an adverse effect on the RMB amount the Company would receive from the conversion. Conversely, if the Company decides to convert RMB into U.S. dollar for the purpose of making payments for dividends on ordinary shares, strategic acquisitions or investments or other business purposes, appreciation of U.S. dollar against RMB would have a negative effect on the U.S. dollar amount available to the Company. In addition, a significant depreciation of the RMB against the U.S. dollar may significantly reduce the U.S. dollar equivalent of the Company’s earnings or losses.

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3. Concentration of Risks (continued)

(d) Currency convertibility risk

The Company transacts all of its business in RMB, which is not freely convertible into foreign currencies. On January 1, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted daily by the PBOC. However, the unification of the exchange rates does not imply that the RMB may be readily convertible into US\$ or other foreign currencies. All foreign exchange transactions continue to take place either through the PBOC or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the PBOC. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with suppliers’ invoices, shipping documents and signed contracts. Additionally, the value of the RMB is subject to changes in central government policies and international economic and political developments affecting supply and demand in the PRC foreign exchange trading system market.

(e) Concentration of credit risk

Financial assets that potentially expose the Company to significant concentration of credit risk consist primarily of cash, accounts receivable, short-term investments and deposits. All of the Company’s cash and short-term investments were held at reputable financial institutions with high-credit ratings. In the event of bankruptcy of one of these financial institutions, the Company may not be able to claim its cash and demand deposits back in full. The Company continues to monitor the financial strength of the financial institutions. There has been no recent history of default in relation to these financial institutions. Accounts receivable and deposits, unsecured and denominated in RMB, derived from or held by industry customers are exposed to credit risk. The Company manages credit risk of accounts receivable through ongoing monitoring of the outstanding balances.

4. Revenues

The following table presents the Company’s revenues disaggregated by revenue category. All revenues were generated in the PRC.

	For the year ended December 31,			
	2020 RMB	2021 RMB	2022 RMB	2022 US\$
<i>Revenue from contract with customers</i>				
On-demand delivery solution services	2,536,818	3,828,956	3,638,729	527,566
Mobility solution services	31,587	110,168	108,081	15,670
Housekeeping services	12,405	79,735	72,576	10,523
Others	—	6,420	992	144
Total revenues	2,580,810	4,025,279	3,820,378	553,903

5. Business Combination

2020 Acquisitions

On September 1, 2020, the Company acquired 51% of equity interests in Haikou Chengtu Network Technology Co., Ltd. (Hangkou Cheng Tu), a company engaged in B&B operation and cleaning service industry. The acquisition will strengthen the Company’s ability to offer management services to short-term rental properties throughout China. The total consideration of the transaction was RMB10,000 in cash. The Company recognized identifiable intangible assets of RMB2,900 consisting of customer relationships that provided the Company with rights to provide B&B and cleaning service in certain areas of the PRC. The Company recognized goodwill of RMB4,613, which represented the expected synergies that will increase the Company’s competitiveness and competence in B&B operation solutions.

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5. Business Combination (continued)

2020 Acquisitions (continued)

On November 1, 2020, the Company acquired 54.22% equity interest in Shenzhen Lilai Information Technology Co., Ltd. (Shenzhen Lilai), a company engaged in hotel workforce optimization service throughout China. Shenzhen Lilai offers a suite of services helping hotel to enhance efficiencies of their cleaning capability. The fair value of the purchase consideration was RMB62.5 million, consisting of RMB40.3 million in cash, 281,703 Class A ordinary shares issued in December 2021 and a non-cash contingent consideration with a fair value of RMB2.9 million that would be settled by up to 1,076,056 Class A ordinary shares that might be issued contingently upon Shenzhen Lilai reaching certain revenue and earnings targets in 2021, 2022 and 2023. The 281,703 Class A ordinary shares to be issued were recorded as financial liabilities as the selling shareholder has the right for cash settlement at US\$10 per share if the Company did not issue related shares within 1 year after the acquisition date. The selling shareholder has the right to cash settlement at a price of US\$10 per share or receive an amount equal to the total difference in the share price between US\$10 per share and then the market price per share for an additional one-year period if it disposes any portion of the 281,703 Class A ordinary shares during that period. The Company recognized identified intangible assets of RMB6,900, consisting of customer relationships with various hotels in China and developed technology consisting of human resource management platform. The Company recognized goodwill of RMB88,216 representing the expected synergies from the combined business, which will enable the Company to compete in hotel workforce optimization industry in China.

On December 31, 2021, the Company issued 281,703 Class A ordinary shares to one of the selling shareholders. The put options of the right to cash settlement at a price of US\$10 per share or receive an amount equal to the total difference in the share price between US\$10 per share and then the market price per share, was initially recorded at fair value and the change of the fair value is recorded in the consolidated statements of comprehensive loss.

On January 5, 2022, the Company issued 9,000,000 Class A ordinary shares to entered into a definitive investment agreement (the “Agreement”) to acquire the remaining 45.78% equity interest in Shenzhen Lilai for a total consideration of approximately RMB62.6 million in the form of the Company’s securities. Transaction has been completed and Quhuo owns 100% equity interest in Lilai.

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5. Business Combination (continued)

2020 Acquisitions (continued)

The following table summarizes the purchase price allocation for the 2020 Acquisitions:

	<u>Haikou Cheng Tu</u> RMB	<u>Shenzhen Lailai</u> RMB	<u>2020 Acquisitions</u> RMB
Purchase consideration	10,000	62,452	72,452
Less:			
Cash	1	912	913
Accounts receivable	1,133	5,903	7,036
Prepayments and other current assets	751	72	823
Property and equipment, net	10,000	15,673	25,673
Customer relationships	2,900	4,000	6,900
Developed technology	—	2,900	2,900
Other assets	—	1,725	1,725
Short-term debt	—	(1,550)	(1,550)
Accounts payable	(1,000)	(2,857)	(3,857)
Accrued expenses and other current liabilities	(245)	(5,830)	(6,075)
Other liabilities	(435)	(1,725)	(2,160)
Non-controlling interests	(7,718)	(44,987)	(52,705)
Goodwill	<u>4,613</u>	<u>88,216</u>	<u>92,829</u>

The Company determined purchase price allocation for this acquisition with the assistance of an independent third-party valuation firm. Fair value of the noncontrolling interests was estimated based on the equity value of the acquired entities derived by the purchase consideration, adjusted for a discount for control premium. The significant inputs used in the estimation of fair values of the intangible assets acquired include revenue growth rates, gross margin rates, weighted average cost of capital, discount rate, and terminal values. The Company estimated the fair value of contingent consideration using a Monte-Carlo simulation model, which considered the uncertainty related to the future performance conditions. The Company estimated the fair value of the 281,703 Class A ordinary shares to be issued using the close price of the Company, adjusted for the lock-up period, while the Black-Scholes model was used to estimate the fair value of the price protection. The significant inputs used in the estimation of shares to be issued and price protection were stock price of the Company, volatility and risk-free rate that market participants would consider.

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5. Business Combination (continued)

2020 Acquisitions (continued)

The operating results of Haikou Chengtu and Shenzhen Lilai were included in the consolidated statement of comprehensive loss from the acquisition date. The Company did not present pro forma results of operations as the effect of the acquisitions were not material to the Company’s consolidated financial statements.

2022 Acquisitions

On January 1, 2022, the Company acquired Shenyang Sen Xin, Panjin Sen Xin and Anshan Sen Rui with total consideration of RMB5,000, including cash consideration of RMB5,000, of which RMB5,000 was paid in 2021. The companies mentioned above were engaged in Ride-hailing solutions services. Goodwill of RMB3,610 recognized represents the expected synergies with the Company’s existing ride-hailing solutions services operations, which was allocated to the “Ride-hailing solutions services” reporting unit and is not tax deductible.

The following table summarizes the purchase price allocation for the 2022 Acquisition:

	<u>2022 Acquisitions</u>
	<u>RMB</u>
Purchase consideration	5,000
Less:	
Cash	272
Accounts receivable	5,836
Customer relationships	1,400
Accrued expenses and other current liabilities	(2,804)
Non-controlling interests	(3,314)
Goodwill	<u>3,610</u>

The purchase price allocation for the acquisitions was based on a valuation determined by the Company with the assistance of an independent third-party valuation firm. The significant inputs used in the purchase price allocations were revenue growth rates, gross margin rates, weighted-average cost of capital, discount rate, and terminal values. Identifiable intangible assets acquired primarily consist of customer relationships which provide the Company with rights to expand its ride-hailing solutions services with the ride-hailing company in specified regions in the PRC.

The operating results of the acquired company was included in the consolidated statement of comprehensive loss from the acquisition date. Pro forma results of operations were not presented because the effect of the acquisition was not material to the Company’s consolidated financial statements.

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6. Short-term investments

The Company’s short-term investments included structured notes with maturities of one year or less and investment in alternative investment fund, which is measured using the NAV per share as a practical expedient. The following is a summary of the Company’s short-term investments:

	As of December 31,		
	2021	2022	2022
	RMB	RMB	US\$
Structured notes	69,548	2,500	362
Investment in fund	109,282	61,855	8,969
Total short-term investments	178,830	64,355	9,331

For the years ended December 31, 2020, 2021 and 2022, the Group recognized other income related to its structured notes of RMB4,255, RMB2,992 and RMB3,411 (US\$495), respectively, in the consolidated statements of comprehensive loss.

For the year ended December 31, 2020, 2021 and 2022, the Group recognized unrealized gain and (loss) on fair value change of the investment of RMB35,527, RMB(52,877) and RMB(47,487) (US\$7,057) as other income/(loss), net in the consolidated statements of comprehensive loss, respectively.

7. Accounts Receivable

	As of December 31,		
	2021	2022	2022
	RMB	RMB	US\$
Accounts receivable	515,334	502,177	72,809
Less: allowance for doubtful accounts	(4,651)	(7,131)	(1,034)
Accounts receivable, net	510,683	495,046	71,775

The following table presents the movement in the allowance for doubtful accounts:

	As of December 31,		
	2021	2022	2022
	RMB	RMB	US\$
Balance at beginning of year	(25)	(4,651)	(674)
Additions	(4,757)	(4,243)	(615)
Written off	131	1,763	255
Balance at end of year	(4,651)	(7,131)	(1,034)

Substantially all of the Company’s accounts receivable as of December 31, 2021 and 2022 are aged within 150 days.

8. Prepayments and Other Current Assets

Prepayments and other current assets consisted of the following:

	As of December 31,		
	2021	2022	2022
	RMB	RMB	US\$
Other receivables	20,507	28,941	4,196
Employee advances	1,682	2,094	304
Prepaid rents	10,177	7,925	1,149
Others	9,862	15,961	2,314
Total prepayments and other current assets	42,228	54,921	7,963

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9. Property and Equipment

Property and equipment, net consisted of the following:

	As of December 31,		
	2021 RMB	2022 RMB	2022 US\$
Vehicles	27,599	28,591	4,145
Electronic equipment	2,558	5,156	748
Leasehold improvement	417	417	60
Furniture	333	459	67
Less: Accumulated depreciation	(15,993)	(23,173)	(3,360)
Total property and equipment, net	14,914	11,450	1,660

The Company recorded depreciation expenses of RMB6,257, RMB5,233 and RMB7,513 (US\$1,089) for the years ended December 31, 2020, 2021 and 2022, respectively.

10. Leases

The Company’s operating leases mainly related to vehicles in connection with our office premises and on-demand delivery service stations. In May 2021, the Company terminated operating lease contracts of 370 vehicles and derecognized related right-of-use assets of RMB23,711 and lease liabilities of RMB23,711 with a reversal of ROU impairment of RMB826. The total lease cost for the year ended December 31, 2021 and 2022 was RMB 43,434 and RMB 44,281 (US\$6,420), comprised of operating lease expenses of RMB 5,128 and RMB3,557 (US\$516), and short-term lease expenses of RMB 38,306 and RMB40,724 (US\$5,904) respectively. The weighted-average remaining lease term and weighted average incremental borrowing rate as of December 31, 2022 was 1.50 years and 4.94%, respectively.

The undiscounted future minimum payments under the Company’s operating lease liabilities and reconciliation to the operating lease liabilities recognized on the consolidated balance sheet was as below:

	2022 RMB	2022 US\$
2023	3,402	493
2024	873	127
2025 and after	273	40
Total undiscounted cashflows	4,548	660
Less: imputed interest	169	25
Present value of lease liabilities	4,379	635

As of December 31, 2022, future minimum payment under non-cancellable short-term leases was RMB4,548 (US\$660).

The operating cash flows used in operating leases was RMB3,867 and RMB4,842 (US\$702) for the year ended December 31, 2021 and 2022, respectively.

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11. Intangible Assets

Intangible assets, net consisted of the following:

	As of December 31,		
	2021 RMB	2022 RMB	2022 US\$
Customer relationships	165,435	163,324	23,680
Purchased software	393	455	66
Technology	2,900	2,900	420
Less: Accumulated amortization	(44,469)	(65,076)	(9,435)
Total intangible assets, net	124,259	101,603	14,731

The Company recorded amortization expenses of RMB13,749, RMB21,104 and RMB21,094 (US\$3,058) primarily as cost of revenues, and RMB53, RMB4,240 and nil of impairment charges as general and administrative expenses for the years ended December 31, 2020, 2021 and 2022, respectively. As of December 31, 2022, estimated amortization expenses of the existing intangible assets for each of the next five years are RMB20,273, RMB20,010, RMB18,840, RMB15,061 and RMB13,945, respectively.

The Company entered into non-monetary transactions to exchange its customer relationships with other on-demand delivery service providers during the year ended December 31, 2020. The Company accounted for these non-monetary exchanges based on fair value of assets received, which was determined using an income approach. The significant inputs used in the fair value assessment were revenue growth rates, gross margin, weighted-average cost of capital and economic useful life of the customer relationships.

12. Goodwill

Changes in the carrying amount of goodwill by the reporting units as of December 31, 2021 and 2022 were as follows:

	Meituan on-demand delivery RMB	Bike-sharing maintenance RMB	Eleme On- demand delivery RMB	B&B solution RMB	Housekeeping solution RMB	Ride-hailing solution services RMB	Total RMB
Balance as of December 31, 2020	11,194	4,882	9,819	4,613	88,216	—	118,724
Impairment	—	—	—	—	(51,971)	—	(51,971)
Balance as of December 31, 2021	11,194	4,882	9,819	4,613	36,245	—	66,753
Acquisitions (note 5)	—	—	—	—	—	3,610	3,610
Impairment	—	(4,882)	—	—	—	—	(4,882)
Balance as of December 31, 2022	11,194	—	9,819	4,613	36,245	3,610	65,481
Balance as of December 31, 2022, in US\$	1,623	—	1,424	669	5,255	523	9,494

In December 2021, the Company completed its annual goodwill impairment analysis, which indicated the carrying value of the Housekeeping solution reporting unit exceeded its fair value due to the impact of COVID-19, integration activities taking longer than anticipated and a slower than anticipated growth rate due to a shifting focus on profitability. The Company estimated the fair value of the Housekeeping solution reporting unit using an income approach which utilized significant judgments and estimates including expected future growth rates with the consideration of the recent market environment and discount rate. The Company recognized the excess between the carrying value and fair value of the Housekeeping solution reporting unit as an impairment charge of RMB51,971.

As part of the annual goodwill impairment analysis the Company also reconciled the total fair value of its reporting units and its market capitalization. Management assessed and concluded the decline of its market capitalization was due to the distressed market caused by the strict COVID-19 policy in China and the increased regulatory pressures that the Company faced in overseas capital markets consistent with declines experienced by its peer companies within its industry as well as control premiums that are not reflected in the Company’s quoted market price.

In December 2022, the Company completed its annual goodwill impairment analysis, which indicated the carrying value of the Bike-sharing maintenance reporting unit exceeded its fair value due to slower than anticipated business integration. As a result, the Company recognized a charge of RMB4,882.

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13. Other Non-current Assets

Other non-current assets consisted of the following:

	As of December 31,		
	2021 RMB	2022 RMB	2022 US\$
Rental and industry customer deposits ⁽¹⁾	108,783	100,443	14,563
Prepayments	42,432	33,802	4,901
Long-term investments	6,105	6,055	878
Total other non-current assets	157,320	140,300	20,342

- (1) The Company’s rental deposits are mainly paid to landlords for its various office spaces and are refundable upon termination of the leases. Industry customer deposits consist of refundable deposits paid to industry customers and are refundable upon termination of contracts with each customer. The Company evaluated the recoverability of the deposits periodically and recorded an allowance of nil and nil for the year ended December 31, 2021 and 2022, respectively.

14. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	As of December 31,		
	2021 RMB	2022 RMB	2022 US\$
Amounts due to third-parties	33,321	33,157	4,807
Income tax payables	7,599	13,446	1,949
Other tax payables	25,427	12,025	1,743
Salary and welfare payables	22,114	33,262	4,823
Deposits received from ride-hailing drivers	5,654	3,234	469
Purchase consideration payable	16,002	15,845	2,297
Others	10,854	14,980	2,173
Total	120,971	125,949	18,261

15. Debt

Short-term Debt

The following table presents the Company’s outstanding short-term debt as of December 31, 2021 and 2022:

Name	Annual interest rates	Term	As of December 31, 2021 RMB	As of December 31, 2022 RMB	As of December 31, 2022 US\$
Short-term loans					
East West Bank	5.00%	6 months	65,000	65,000	9,424
SPD Silicon Valley Bank	4.85% - 6.00% (Floating)	6 months	70,000	—	—
China Merchants Bank	5.00%	6 months	5,000	—	—
Yirongxin Commercial Factoring Limited	15.15%	60 days	4,024	—	—
Long-term debt, current portion	8.45% - 10.46%	3-4 years	4,417	434	63
Total			148,441	65,434	9,487

In April 2021, the Company entered into a banking facility agreement with East West Bank, pursuant to which the Company is entitled to borrow RMB65,000 with an interest rate of 5.00%. The loan is intended for general working capital purposes and is guaranteed by the Company and secured by certain accounts receivables of the Company.

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15. Debt (continued)

Short-term Debt (continued)

In November 2020, the Company entered into a banking facility agreement with SPD Silicon Valley Bank, pursuant to which the Company is entitled to borrow RMB70,000 with a floating interest rate benchmarked to one-year lending rate of PBOC. The Company drew down RMB70,000 in 2021 and fully repaid in 2022. The loan is intended for general working capital purposes and is secured by standby letter of credits issued by SPD Silicon Valley Bank and by certain accounts receivables of the Company.

In December 2021, the Company entered into a banking facility agreement with China Merchants Bank, pursuant to which the Company is entitled to borrow RMB30,000 with an interest rate of 5.00%. The Company drew down RMB5,000 in December 2021 and fully repaid in June 2022. The loan is intended for general working capital purposes and is secured by standby letter of credits issued by China Merchants Bank.

In November 2021, the Company entered into factoring agreements with Yirongxin Commercial Factoring Limited, pursuant to which the Company is entitled to borrow RMB5,000 with an interest rate of 15.15%. The Company drew down RMB2,000 and RMB2,024 in November 2021 and December 2021, respectively and fully repaid in 2022. The loan is intended for general working capital purposes and is secured by certain accounts receivables of the Company.

Long-term debt

The following table presents the Company’s long-term debt as of December 31, 2021 and 2022:

	Annual interest rates	Term	As of December 31, 2021 RMB	As of December 31, 2022 RMB	As of December 31, 2022 US\$
Long-term debt, current portion	8.45% - 10.46%	3-4 years	4,417	434	63
Long-term debt, non-current portion	8.45% - 10.46%	3-4 years	3	1,303	189
Total			4,420	1,737	252

In July 2019, the Company entered into an agreement with a third party pursuant to which the Company borrowed a total of RMB15,270 as of December 31, 2020. Under the terms of the agreement, the Company will repay in fixed monthly installments over 36 months. The effective interest rate for the various borrowings was 8.45% - 8.98% per annum. The borrowing is secured by the Company’s property and equipment and was ended in June 2022. The security relationship was released as of December 31, 2022.

In December 2022, the Company entered into an agreement with a third party pursuant to which the Company borrowed RMB1,427 to purchase 12 vehicles for a total consideration of RMB1,737 for the Company’s ride-hailing solution business. Under the terms of the agreement, the Company will repay in fixed monthly installments over 48 months. The effective interest rate was 10.46% per annum. The Company obtained the ownership of the vehicles at inception of the arrangement and the borrowings are secured by the related vehicles.

The weighted average interest rate for all the outstanding borrowings was approximately 5.70%, 5.77% and 5.18% as of December 31, 2020, 2021 and 2022 respectively.

As of December 31, 2022, maturities of the debt are as follows:

	RMB	US\$
2023	65,434	9,487
2024	434	63
2025	434	63
2026	435	63
Total	66,737	9,676

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16. Other non-current liabilities

Other non-current liabilities consisted of the following:

	Note	As of December 31,		
		2021 RMB	2022 RMB	2022 US\$
Unrecognized tax benefit	18	48,903	65,080	9,436
Contingent consideration, non-current portion		1,800	1,800	261
Total		50,703	66,880	9,697

17. Share-Based Compensation

On June 1, 2017, the Board of Directors of Beijing Quhuo approved the 2017 Share Plan (the “2017 Plan”) for the purpose of providing incentives and rewards to the Company’s senior management, employees and consultants. Under the 2017 Plan, the Company reserved 19.55% of its equity interests.

On August 23, 2019, the Company’s shareholders and Board of Directors approved the 2019 Share Incentive Plan (the “2019 Plan”) which replaced the Company’s 2017 Plan. Under the 2019 Plan, the Company reserved in aggregate 9,502,550 ordinary shares, representing 19.55% equity interest of the Company, to its share-based payment trust to hold options to be awarded to the Company for the purposes of providing incentives and rewards to the Company’s senior management, employees, and other individuals. On August 23, 2019, the Company granted 3,396,372 options, 2,382,344 options, and 583,277 options under the 2019 Plan to employees, non-employees, and the former shareholders as part of the purchase consideration for the business acquisition completed in previous year, respectively. Upon adoption of the 2019 Plan, the vesting terms were modified such that substantially all of the outstanding options would not be exercisable until the completion of the Company’s IPO. The modification was a probable-to-improbable modification as IPO constituted a performance condition that was not considered probable until the IPO completion date. As such, no incremental fair value was recognized unless and until the modified condition becomes probable. The award’s original grant-date fair value is recognized as an expense, over the requisite service period, regardless of whether the modified conditions are satisfied. The performance condition became probable upon the IPO completion date, whereupon the Company recognized incremental share-based compensation amounting of RMB63,574 (US\$9,743). As of December 31, 2021, the former shareholders exercised all the 583,277 options under the 2019 Plan.

Employees

The options granted to employees under the 2017 Plan are accounted for as equity awards and contain service vesting conditions. The options generally will become vested either: (i) 100% on the grant date; (ii) 100% on the first anniversary of the vesting commencement date; (iii) over three years, which 25%, 35% and 40% of the options vesting on the first, second and third anniversary of the vesting commencement date; or (iv) over four years, which 40%, 20%, 20% and 20% of the options vesting on the first, second, third and fourth anniversary of the vesting commencement date, respectively. Upon adoption of the 2019 Plan, terms were modified such that all options granted to the employees will not be exercisable until the completion of the Company’s IPO.

On September 1, 2019, the Company granted an additional 2,187,287 options under the 2019 Plan to certain executives. These options will not vest until the completion of an IPO and are subject to market conditions based on the Company’s market capitalization for a specified period subsequent to the IPO while the executives remain employed by the Company.

On January 1, 2020, the Company granted additional 243,032 options under the 2019 Plan to one executive vesting over four years with 20%, 20%, 30% and 30% of the options vesting on the first, second, third and fourth anniversary of the vesting commencement date, respectively, which is also subject to the completion of the initial public offering of the Company.

Subsequent to the completion of the IPO, the Company granted an additional 106,341 options under the 2019 Plan to certain executives. The options were fully vested on the grant date, and the Company recognized the share compensation expenses in full on the grant date.

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17. Share-Based Compensation (continued)

Employees (continued)

On April 19, 2021, the Company granted 785,917 options under the 2019 Plan to one executive vesting over two years with 40% of the grants vesting immediately on grant date and 30% of the options vesting on the first and second anniversary of the vesting commencement date, respectively.

In May 2021, the Company cancelled 2,187,287 options previously granted on September 1, 2019 to four executives. As a result, the Company immediately recognized the remaining share-based compensation expense of RMB10,296 (US\$1,594) related to unvested share-based awards.

In May 2022, three executives withdrew exercises of 1,233,027 options.

A summary of the option activities for employees under the 2019 Plan is as follows:

	Number of options	Weighted average exercise price USD	Weighted average grant date fair value USD	Aggregate intrinsic value USD	Weighted average remaining contractual term
Outstanding as of December 31, 2019	5,583,659	0.07	5.18	28,302	9.0
Granted	349,373	0.21	6.98	—	—
Forfeited	—	—	—	—	—
Outstanding as of December 31, 2020	5,933,032	0.08	5.29	41,992	8.1
Granted	785,917	0.0001	4.86	—	—
Canceled	(2,187,287)	0.0001	5.14	—	—
Exercised	(1,842,456)	0.17	5.46	—	—
Forfeited	—	—	—	—	—
Outstanding as of December 31, 2021	2,689,206	0.06	5.30	2,822	7.5
Exercise withdrawal	1,233,027	0.15	5.13	—	—
Exercised	(127,580)	0.20	6.17	—	—
Outstanding as of December 31, 2022	3,794,653	0.05	5.22	1,300	6.3
Vested and expected to vest as of December 31, 2022	3,794,653	—	—	—	—
Exercisable at December 31, 2022	3,485,968	—	—	—	—

The aggregate intrinsic value in the table above represents the difference between the fair value of the Company’s ordinary share as of December 31, 2020, 2021 and 2022 and the option’s respective exercise price. For the year ended December 31, 2022, the total intrinsic value of options exercised by employees was RMB199 (US\$29). As of December 31, 2022, there was RMB 281 (US\$41) of total unrecognized employee share-based compensation expenses related to unvested share-based awards, which will be recognized over the weighted-average period of 1 year.

Non-employees

The Company granted options to certain non-employees under the 2017 Plan which are accounted for as equity awards. These options were fully vested on the grant date, and the Company recognized the share compensation expenses in full on the grant date. Upon adoption of the 2019 Plan, terms were modified such that substantially all of the options granted to non-employees will not be exercisable until the completion of the Company’s IPO.

Subsequent to the completion of the IPO and to the end of December 31, 2020, the Company granted an additional 36,539 options under the 2019 Plan to certain non-employees. These options were fully vested on the grant date, and the Company recognized the share compensation expenses in full on the grant date.

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17. Share-Based Compensation (continued)

Non-employees (continued)

On April 19, 2021, the Company granted 1,047,890 options under the 2019 Plan to two non-employees vesting over two years with 40% of the grants vesting immediately on grant date and 30% of the options vesting on the first and second anniversary of the vesting commencement date, respectively.

In May 2022, the Company cancelled 723,738 options previously granted on December 18, 2018 to four non-employees. The Company has fully recognized share-based compensation expense of RMB27,620 (US\$4,005) on the grant date.

A summary of the option activities for non-employees under the 2019 Plan is as follows:

	Number of options	Weighted average exercise price USD	Weighted average grant date fair value USD	Aggregate intrinsic value USD	Weighted average remaining contractual term
Outstanding as of December 31, 2019	2,382,344	0.20	5.19	11,762	9.0
Granted	36,539	0.21	8.53	—	—
Forfeited	—	—	—	—	—
Outstanding as of December 31, 2020	2,418,883	0.21	5.24	17,748	8.0
Granted	1,047,890	0.0001	4.86	—	—
Exercised	(1,074,879)	0.46	5.13	—	—
Forfeited	—	—	—	—	—
Outstanding as of December 31, 2021	2,391,894	0.0001	5.12	2,655	8.0
Canceled	(723,738)	0.0001	5.32	—	—
Exercised	(367,462)	0.0001	4.86	—	—
Outstanding as of December 31, 2022	1,300,694	0.0001	5.08	556	7.2
Vested and expected to vest as of December 31, 2022	1,300,694				
Exercisable as of December 31, 2022	1,096,566				

The aggregate intrinsic value in the table above represents the difference between the fair value of the Company’s ordinary share as of December 31, 2020, 2021 and 2022 and the option’s respective exercise price. For the year ended December 31, 2022, the total intrinsic value of options exercised by non-employees was RMB 1,084 (US\$157). As of December 31, 2022, there was RMB226 (US\$33) of total unrecognized non-employee share-based compensation expenses related to unvested share-based awards, which will be recognized over a weighted-average period of 1 year.

Fair value of options

The Company estimated the fair value of options using the binomial-lattice option model, with the assistance from an independent third-party appraiser. The binomial-lattice option model requires the input of highly subjective assumptions, including the expected share price volatility and the expected exercise multiple. For expected volatilities, the Company referenced historical volatilities of several comparable companies. The suboptimal exercise factor was estimated based on the Company’s expectation of exercise behavior of the grantees. The risk-free rate for periods within the contractual life of the options is based on the market yield of U.S. Treasury Bonds in effect at the time of grant. The estimated fair value of the ordinary shares, at the option grant dates, was determined with the assistance from an independent third-party appraiser. The Company’s management is ultimately responsible for the determination of the estimated fair value of its ordinary shares.

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17. Share-Based Compensation (continued)

Fair value of options (continued)

Prior to the IPO, the Group, with the assistance of an independent third-party valuation firm, estimated the fair value of the ordinary shares by using a discounted cash flow approach to determine the enterprise value of the Company, which was then allocated to the Company’s various classes of equity. Upon completion of the IPO the Group estimated the fair value of its ordinary shares by reference to the closing trading price of its ADS on each grant date.

The assumptions used to estimate the fair value of the options granted are as follow:

	For the year ended December 31, 2020	For the year ended December 31, 2021
Risk-free interest rate	0.55%-1.92%	1.61%
Expected volatility	32.54%-33.58%	33%
Suboptimal exercise factor	2.5	2.5
Fair value per ordinary share	USD6.29 - 8.53	USD4.86
Expected dividend yield	0%	0%
Post-vesting forfeiture rate	0%	0%

The binomial-lattice option valuation model considered the contract lives of the options of 10 years.

The Company recognized share-based compensation expense for the years ended December 31, 2020, 2021 and 2022 as follows:

	For the year ended December 31,			
	2020 RMB	2021 RMB	2022 RMB	2022 USD
General and administrative	80,727	68,932	19,762	2,865
Cost of revenues	1,940	—	—	—
Total share-based compensation expense	82,667	68,932	19,762	2,865

18. Income Taxes

Cayman Islands

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gain arising in Cayman Islands.

BVI

Under the current laws of the BVI, Quhuo BVI is not subject to tax on income or capital gains.

Hong Kong

Quhuo HK is incorporated in Hong Kong and is subject to Hong Kong profits tax of 16.5% on its activities conducted in Hong Kong. No provision for Hong Kong profits tax was made in the consolidated financial statements as Quhuo HK had no assessable income for the years ended December 31, 2020, 2021 and 2022, respectively.

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18. Income Taxes (continued)

PRC

The Company’s subsidiaries, VIE and VIE’s subsidiaries in the PRC are subject to the statutory rate of 25%, in accordance with the Enterprise Income Tax law (the “EIT Law”), which was effective since January 1, 2008 except for the following entities eligible for preferential tax rates. In 2020, Nantong Runda qualified for the requirements of small and micro-sized enterprise, and its first one million RMB of annual taxable income was eligible for 75% reduction and the taxable income between one million RMB and three million RMB was eligible for 50% reduction and the applicable CIT rate was 20%. In 2021, Nantong Runda did not qualify for the requirements of small and micro-sized enterprise, and the applicable CIT rate is 25%. In 2022, Nantong Runda qualified for the requirements of small and micro-sized enterprise, and its first one million RMB of annual taxable income was eligible for 12.5% reduction and the taxable income between one million RMB and three million RMB was eligible for 50% reduction and the applicable CIT rate was 20%. Hainan Quhuo, Hainan Xinying, Haikou Chengtu, Hainan Huiliu Haikou Chengjing are enterprises registered in the Hainan free trade port and engaged in substantial business in encouraged industries and are therefore entitled to preferential tax rate of 15%. Beijing Quhuo, a subsidiary of VIE, was recognized as high and new technology enterprise (“HNTE”) and was eligible for a preferential tax rate of 15% from 2020 to 2023.

Dividends, interests, rent or royalties payable by the Company’s PRC subsidiaries, to non-PRC resident enterprises, and proceeds from any such non-resident enterprise investor’s disposition of assets (after deducting the net value of such assets) shall be subject to 10% withholding tax, unless the respective non-PRC resident enterprise’s jurisdiction of incorporation has a tax treaty or arrangements with China that provides for a reduced withholding tax rate or an exemption from withholding tax.

Composition of income tax expense

The current and deferred portions of income tax expense included in the consolidated statements of comprehensive loss were as follows:

	As of December 31,			
	2020 RMB	2021 RMB	2022 RMB	2022 US\$
Current income tax expense	26,168	16,360	26,211	3,800
Deferred income tax benefit	(740)	(4,333)	(5,209)	(755)
Total income tax expense	25,428	12,027	21,002	3,045

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18. Income Taxes (continued)

Reconciliation between expenses of income taxes

The reconciliations of the income tax expense for the years ended December 31, 2020, 2021 and 2022 were as follows:

	For the year ended December 31,			
	2020 RMB	2021 RMB	2022 RMB	2022 US\$
Net income (loss) before income tax expense	19,824	(179,203)	4,588	665
Income tax at statutory tax rate	4,956	(44,801)	1,147	166
International tax rate difference	(7,146)	12,801	14,598	2,116
Effect of preferential tax rates	(3,762)	(4,080)	(9,083)	(1,317)
Non-deductible entertainment expenses	5,738	4,189	4,637	673
Non-deductible stock compensation	20,667	18,020	4,940	716
Other non-deductible expense	3,741	17,576	3,819	554
Research and development expense super-deduction	(885)	(1,562)	(2,003)	(290)
Changes in valuation allowance	560	4,290	424	61
Interest expense	2,520	5,785	2,523	366
Tax rate change	(66)	(191)	—	—
Non-taxable income	(1,617)	—	—	—
Unutilized tax loss	722	—	—	—
Income tax expense	25,428	12,027	21,002	3,045

Deferred tax assets and liabilities

Deferred taxes were measured using the enacted tax rates for the periods in which the temporary differences are expected to be reversed. The tax effects of temporary differences that give rise to the deferred tax balances as of December 31, 2021 and 2022 were as follows:

	As of December 31,		
	2021 RMB	2022 RMB	2022 US\$
Deferred tax assets:			
Tax losses carried forward	14,010	17,779	2,578
Accrued expense and other current liabilities	6,100	6,969	1,009
Amortization and depreciation difference	2,928	2,928	425
Bad debt provision	844	1,464	212
Leasing Liability	1,364	980	142
Prepaid rent	258	266	39
Less: valuation allowance	(15,740)	(16,164)	(2,343)
Deferred tax assets, net	9,764	14,222	2,062
Deferred tax liabilities:			
Intangible assets	2,166	1,790	260
Right-of-use assets	1,622	1,247	180
Deferred tax liabilities, net	3,788	3,037	440

The Company operates through VIE and subsidiaries of the VIE and valuation allowance is considered for each of the entities on an individual basis. The Company recorded valuation allowance against deferred tax assets of those entities that were in a three-year cumulative financial loss and are not forecasting profits in the near future as of December 31, 2020, 2021 and 2022. In making such determination, the Company also evaluated a variety of factors including the Company’s operating history, accumulated deficit, existence of taxable temporary differences and reversal periods.

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18. Income Taxes (continued)

Deferred tax assets and liabilities (continued)

As of December 31, 2020, 2021 and 2022, the Company had taxable losses of RMB51,047, RMB56,041 and RMB81,542 (US\$11,822) derived from entities in the PRC, which can be carried forward per tax regulation to offset future taxable income for income tax purposes. The PRC taxable losses will expire from December 31, 2023 to 2027 if not utilized.

Unrecognized Tax Benefit

As of December 31, 2020, 2021 and 2022, the Company had unrecognized tax benefit of RMB36,112, RMB43,311 and RMB55,263 (US\$8,012), respectively, of which RMB34,998, RMB40,002 and RMB53,656 (US\$7,779) are presented on a net basis against the deferred tax assets related to tax loss carry forwards on the consolidated balance sheets. It is possible that the amount of unrecognized tax benefit will further change in the next 12 months; however, an estimate of the range of the possible change cannot be made at this moment. As of December 31, 2020, 2021 and 2022, unrecognized tax benefits of RMB36,012, RMB43,197 and RMB55,149 (US\$7,996), respectively, if ultimately recognized, will impact the effective tax rate. A reconciliation of the beginning and ending amount of unrecognized tax benefit was as follows:

	For the year ended December 31,		
	2021	2022	2022
	RMB	RMB	US\$
Balance at January 1	36,112	43,311	6,280
Increase	8,646	12,449	1,804
Decrease	(1,447)	(497)	(72)
Balance at December 31	43,311	55,263	8,012

In the years ended December 31, 2020, 2021 and 2022, the Company recorded interest expense accrued in relation to the unrecognized tax benefit of RMB2,520, RMB5,785 and RMB2,523 (US\$366) in income tax expense, respectively. Accumulated interest expense recorded in unrecognized tax benefit was RMB3,116, RMB8,901 and RMB11,424 (US\$1,656), respectively, as of December 31, 2020, 2021 and 2022.

As of December 31, 2022, the tax years ended December 31, 2017 through period ended as of the reporting date for the WFOE, the VIE and VIE’s subsidiaries remain open to examination by the PRC tax authorities

19. Ordinary Shares

On July 10, 2020, the Company completed its IPO on the Nasdaq Global Market, or NASDAQ. Upon completion of the IPO, the Company issued 3,788,100 ADSs, representing 3,788,100 Class A ordinary shares at US\$10.00 per ADS. Net proceeds from the IPO after deducting issuance cost were RMB244,161 (US\$37,419). IPO costs of RMB12,038 (US\$1,845) were recorded as reduction of the proceeds from the IPO in shareholders’ equity.

Immediately prior to the completion of the IPO, all the ordinary shares held by the controlling shareholder were converted into an equal number of the Class B ordinary shares, all the ordinary shares held by other shareholders were converted into an equal number of the Class A ordinary shares, all of the then outstanding redeemable convertible preferred shares automatically converted into 24,131,100 Class A ordinary shares and the related aggregate carrying value of RMB1,031,001 was reclassified from mezzanine equity to shareholders’ equity.

As of December 31, 2021 and 2022, the authorized share capital consisted of 500,000,000 shares, of which, 300,000,000 shares were designated as Class A ordinary shares, 6,296,630 shares as Class B ordinary shares, and 193,703,370 shares of such class (or classes) as the board of directors may determine. The rights of the Class A and Class B ordinary shares are identical, except with respect to voting and conversion rights. Each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to 15 votes and is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.

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19. Ordinary Shares (continued)

As of December 31, 2021, there were 46,379,583 Class A ordinary shares issued and 40,377,645 Class A ordinary shares outstanding, and there were 6,296,630 Class B ordinary shares issued and outstanding. As of December 31, 2022, there were 55,379,583 Class A ordinary shares issued and 48,639,660 Class A ordinary shares outstanding, and there were 6,296,630 Class B ordinary shares issued and outstanding. No Class B ordinary shares were converted into Class A ordinary shares as of December 31, 2022.

20. Earnings/(Loss) Per Share

The rights of the holder of Class A and Class B ordinary shares were identical for all periods presented, except with respect to voting and conversion rights, and therefore, the undistributed earnings were allocated on a proportionate basis and the resulting earnings per share attributable to ordinary shareholders were the same for both Class A and Class B ordinary shares on an individual or combined basis. The following table sets forth the computation of basic net earnings/(loss) per share for the following periods:

	December 31,			
	2020	2021	2022	2022
	RMB	RMB	RMB	US\$
Basic Earnings/(Loss) Per Share				
<i>Numerator:</i>				
Net income/(loss) attributable to ordinary shareholders	3,430	(157,907)	(13,130)	(1,904)
Less: Noncumulative dividends to Preferred Shares	(1,059)	—	—	—
Net income/(loss) attributable to ordinary shareholders for computing basic earnings/(loss) per ordinary share	2,371	(157,907)	(13,130)	(1,904)
<i>Denominator:</i>				
Weighted average number of shares outstanding	28,282,187	43,914,204	56,007,723	56,007,723
Earnings/(loss) per share - basic	0.08	(3.60)	(0.23)	(0.03)

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20. Earnings/(Loss) Per Share (continued)

The following table sets forth the computation of diluted net earnings/(loss) per share for the following periods:

	December 31,			
	2020	2021	2022	2022
	RMB	RMB	RMB	US\$
Diluted Earnings/(Loss) Per Share				
Numerator:				
Net income/(loss) attributable to ordinary shareholders for computing basic earnings/(loss) per ordinary share	2,371	(157,907)	(13,130)	(1,904)
Add: Noncumulative dividends to Preferred Shares	1,059	—	—	—
Net income/(loss) attributable to ordinary shareholders for computing diluted earnings/(loss) per ordinary share	3,430	(157,907)	(13,130)	(1,904)
Denominator:				
Weighted average number of shares outstanding	28,282,187	43,914,204	56,007,723	56,007,723
Dilutive share options	7,561,986	—	—	—
Weighted average number of effect of convertible Preferred Shares	12,627,507	—	—	—
Weighted average ordinary shares issuable in connection with business combination	46,307	—	—	—
Weighted average number of shares outstanding-diluted	48,517,987	43,914,204	56,007,723	56,007,723
Earnings/(loss) per share - diluted	0.07	(3.60)	(0.23)	(0.03)

For the years ended December 31, 2021 and 2022, the computation of basic loss per share using the two-class method is not applicable as the Company was in a net loss position. For the year ended December 31, 2020, the two-class method is applicable because the contingently redeemable ordinary shares have right to participate in the earnings for the portion of the period they are outstanding. The effects of all outstanding contingently redeemable ordinary shares and share options were excluded from the computation of diluted loss per share for the years ended December 31, 2021 and 2022, as the effect would be anti-dilutive. For the year ended December 31, 2020, potential dilutive shares consist of incremental ordinary shares issuable upon the exercise of outstanding options calculated under treasury method, weighted average effect of convertible redeemable ordinary shares for the period they were outstanding under if-converted method and weighted average number of ordinary shares issuable in connection with a business combination.

21. Restricted Net Assets

The Company’s ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its subsidiaries. Relevant PRC statutory laws and regulations permit payments of dividends by the Company’s PRC subsidiaries only out of its retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the consolidated financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Company’s PRC subsidiaries.

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21. Restricted Net Assets (continued)

In accordance with the Regulations on Enterprises with Foreign Investment of China and its Articles of Association, the Company’s PRC subsidiaries, being a foreign-invested enterprise established in the PRC, are required to provide certain statutory reserves, namely the general reserve fund, enterprise expansion fund and staff welfare and bonus fund, all of which are appropriated from net profit as reported in its PRC statutory accounts. The Company’s PRC subsidiaries are required to allocate at least 10% of its annual after-tax profit to the general reserve fund until such fund has reached 50% of its registered capital based on the enterprise’s PRC statutory accounts. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the Board of Directors of the PRC subsidiaries. These reserves can only be used for specific purposes and are not transferable to the Company in the form of loans, advances, or cash dividends.

Under PRC laws and regulations, there are restrictions on the Company’s PRC subsidiaries and VIE with respect to transferring certain of their net assets to the Company either in the form of dividends, loans, or advances. Amounts restricted include paid-in capital and statutory reserve of the Company’s PRC subsidiaries and the VIE, totalling approximately RMB190,961 (US\$27,687) as of December 31, 2022; therefore in accordance with Rules 504 and 4.08(e)(3) of Regulation S-X, the condensed parent company only financial statements as of December 31, 2020, 2021 and 2022 and for each of the three years in the period ended December 31, 2022 are disclosed in Note 25.

Furthermore, cash transfers from the Company’s PRC subsidiaries to its subsidiaries outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency may restrict the ability of the PRC subsidiaries and consolidated VIE to remit sufficient foreign currency to pay dividends or other payments to the Company, or otherwise satisfy their foreign currency denominated obligations.

22. Commitments and Contingencies

Contingencies

In the ordinary course of business, the Company may from time to time be involved in legal proceedings and litigation relating to injuries caused by workforce and labor arbitration cases brought by disgruntled workforce, among others. The Company records a liability when the Company believes that it is both probable that a loss has been incurred and the amount can be reasonably estimated. With respect to the Company’s outstanding legal matters, based on its current knowledge, the Company believes that the amount or range of reasonably possible loss will not, either individually or in the aggregate, have a material adverse effect on the Company’s business, financial position, results of operations, or cash flows. However, the outcome of such legal matters is inherently unpredictable and subject to significant uncertainties.

23. Related Party Transactions

Names of the related parties	Relationship with the Company
Hainan Huiliu Tianxia Network Technology Co., Ltd. (“Hainan Huiliu”)	Entity controlled by a principle shareholder
Shenyang Bokai Network Technology Co., Ltd. (“Shenyang Bokai”)	Entity controlled by management

Amounts due from related parties as of December 31, 2021 and December 31, 2022 were as follows:

	As of December 31,		
	2021 RMB	2022 RMB	2022 US\$
Amounts due from related parties:			
Hainan Huiliu	4,787	3,876	562

Amounts due from Hainan Huiliu were unsecured, interest-free and have fixed terms of repayment, which were advance made and settled in February.

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23. Related Party Transactions (continued)

Amounts due to related parties as of December 31, 2021 and December 31, 2022 were as follows:

	As of December 31,		
	2021	2022	2022
	RMB	RMB	US\$
Amount due to related parties:			
Shenyang Bokai	245	—	—

Amounts due to Shenyang Bokai were labor recruitment services fee to be paid. The amounts were paid in March 2022.

Transactions with related parties for the years ended December 31, 2020, 2021 and 2022:

	For the year ended December 31,			
	2020	2021	2022	2022
	RMB	RMB	RMB	US\$
Labor consulting service received from:				
Hainan Huiliu	—	54,525	63,474	9,203
Shenyang Bokai	—	1,525	1,635	237
Total	—	56,050	65,109	9,440

The Company received labor recruitment services from Hainan Huiliu and Shenyang Bokai and recorded labor recruitment cost in cost of revenues.

24. Fair Value Measurement

(a) Assets and liabilities measured or disclosed at fair value on a recurring basis

In accordance with ASC 820, the Company measures short-term investments and payables for contingent consideration for business acquisitions at fair value on a recurring basis. Short-term investments include structured notes with a variable interest rate and equity investment in a mutual fund with fair value measurement. The short-term investments in structured notes are recorded at fair value based on quoted prices provided by banks at the end of each period. The Company classifies the valuation techniques that use these inputs as Level 2 of fair value measurements. The Company measures the fair value of contingent consideration for business combination using 1) management’s estimate of the acquiree’s pre-tax operating profit for the years ended December 31, 2019, 2) management’s estimate of the acquiree’s certain revenue and net profit for the year ending December 31, 2021, 2022 and 2023, and 3) as well as the discount factor which considers the time value of money and credit risk. The Company measured the payables for contingent consideration at fair value on a recurring basis using significant unobservable inputs (Level 3) as of the year ended December 31, 2022. Significant increases (decreases) in the inputs used in the fair value measurement of Level 3 contingent consideration in isolation would result in a significant higher (lower) fair value measurement.

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24. Fair Value Measurement (continued)

(a) *Assets and liabilities measured or disclosed at fair value on a recurring basis (continued)*

As of December 31, 2021 and 2022, assets and liabilities measured or disclosed at fair value on a recurring basis are summarized below:

	Total fair value at December 31, 2021 RMB	Fair value measurement or disclosure at December 31, 2021 using			Total (losses) gains RMB
		Quoted prices in active market for identical assets (Level 1) RMB	Significant other observable inputs (Level 2) RMB	Significant unobservable inputs (Level 3) RMB	
Assets					
Short-term investments, structured notes - recurring	69,548	—	69,548	—	—
Short-term investments, alternative investment fund ⁽¹⁾	109,282	—	—	—	(52,877)
Total	178,830	—	69,548	—	(52,877)
Liabilities					
Purchase consideration payables	16,002	—	—	16,002	—
Contingent consideration	1,800	—	—	1,800	1,100
Total	17,802	—	—	17,802	1,100

	Total fair value at December 31, 2022 RMB	Fair value measurement or disclosure at December 31, 2022 using			Total losses RMB
		Quoted prices in active market for identical assets (Level 1) RMB	Significant other observable inputs (Level 2) RMB	Significant unobservable inputs (Level 3) RMB	
Assets					
Short-term investments, structured notes-recurring	2,500	—	2,500	—	—
Short-term investments, alternative investment fund ⁽¹⁾	61,855	—	—	—	(49,664)
Total	64,355	—	2,500	—	(49,664)
Liabilities					
Purchase consideration payables	15,845	—	—	15,845	—
Contingent consideration	1,800	—	—	1,800	—
Total	17,645	—	—	17,645	—

(1) Investments are measured at fair value using NAV as a practical expedient. These investments have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented on the consolidated statements of balance sheets.

The Company did not transfer any assets or liabilities in or out of Level 3 during the years ended December 31, 2020, 2021 and 2022.

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24. Fair Value Measurement (continued)

(b) Assets and liabilities measured at fair value on a nonrecurring basis

The Group’s goodwill and intangible assets are primarily acquired through business acquisitions. Purchase price allocation are measured at fair value on a nonrecurring basis as of the acquisition dates. The Group measures its goodwill and intangible assets at fair value on a nonrecurring basis annually or whenever events or changes in circumstances indicate that carrying amount of a reporting unit exceeds its fair value. Acquired intangible assets are measured using the income approach - discounted cash flow method when events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. The Group recognized impairment loss related to goodwill and acquired intangible assets arising from acquisitions of RMB55,038 and RMB4,882(US\$708) for the years ended December 31, 2021 and 2022, respectively.

25. Condensed Financial Information of the Parent Company

The following is the condensed financial information of the parent Company on a parent company only basis.

Condensed balance sheets

	As of December 31,		
	2021 RMB	2022 RMB	2022 US\$
Assets:			
Current assets			
Cash	8,612	7,157	1,038
Short-term investments	109,282	61,855	8,968
Inter-group balance due from VIE, WFOE and subsidiaries	82,687	88,264	12,797
Total current assets	200,581	157,276	22,803
Non-current assets			
Investments in subsidiaries, VIE and VIE’s subsidiaries	270,360	345,026	50,024
Total non-current assets	270,360	345,026	50,024
Total Assets	470,941	502,302	72,827
Liabilities:			
Other Liabilities	—	1,140	165
Total Liabilities	—	1,140	165
Shareholders’ equity:			
Ordinary shares (US\$0.0001 par value; 300,000,000 Class A ordinary shares authorized, 46,379,583 and 55,379,583 shares issued, and 40,377,645 and 48,639,660 shares outstanding as of December 31, 2021 and 2022, respectively; 6,296,630 and 6,296,630 Class B ordinary shares authorized, issued and outstanding as of December 31, 2021 and 2022, respectively; 193,703,370 and 193,703,370 shares (undesignated) authorized, nil and nil shares (undesignated) issued and outstanding as of December 31, 2021 and 2022, respectively)	37	43	6
Additional paid-in capital	1,855,897	1,885,637	273,392
Accumulated deficit	(1,366,734)	(1,379,864)	(200,061)
Accumulated other comprehensive loss	(18,259)	(4,654)	(675)
Total shareholders’ equity	470,941	501,162	72,662
Total liabilities and shareholders’ equity	470,941	502,302	72,827

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25. Condensed Financial Information of the Parent Company (continued)

Condensed statements of comprehensive loss

	For the year ended December 31,			
	2020 RMB	2021 RMB	2022 RMB	2022 US\$
Cost of revenues	(2,175)	—	—	—
General and administrative	(85,919)	(2,241)	(8,722)	(1,264)
Foreign exchange loss	(1,515)	692	(5)	(1)
Other income/(loss), net	35,527	(52,804)	(49,664)	(7,201)
Share of gain/(loss) in subsidiaries, the VIE and the VIE’ subsidiaries	57,512	(103,554)	45,261	6,562
Income/(loss) before income tax	3,430	(157,907)	(13,130)	(1,904)
Income tax expenses	—	—	—	—
Net income/(loss) attributable to ordinary shareholders	3,430	(157,907)	(13,130)	(1,904)
Comprehensive income/(loss)	3,430	(157,907)	(13,130)	(1,904)

Condensed statements of cash flows

	For the year ended December 31,			
	2020 RMB	2021 RMB	2022 RMB	2022 US\$
Net income /(loss)	3,430	(157,907)	(13,130)	(1,904)
Share of (loss)/gain in subsidiaries, VIE and VIE’s Subsidiaries	(57,512)	103,554	(45,261)	(6,562)
Share-based compensation	82,667	—	19,762	2,865
Other income/(loss), net	(35,527)	52,877	49,664	7,201
Provision for other receivables	648	—	—	—
Unrealized foreign exchange loss (gain)	146	214	(627)	(91)
Changes in operating assets and liabilities	1,915	247	(18,072)	(2,880)
Net cash used in operating activities	(4,233)	(1,015)	(7,664)	(1,371)
Net cash used in investing activities	(129,854)	—	5,582	809
Net cash provided by financing activities	143,972	1	—	—
Effect of exchange rate changes on cash	(146)	(214)	627	92
Net increase (decrease) in cash	9,739	(1,228)	(1,455)	(470)
Cash at beginning of the year	101	9,840	8,612	1,508
Cash at end of the year	9,840	8,612	7,157	1,038

Basis of presentation

The condensed financial information of the parent company has been prepared using the same accounting policies as set out in the Company’s consolidated financial statements except that the parent company used the equity method to account for investment in its subsidiaries and VIE.

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25. Condensed Financial Information of the Parent Company (continued)

Basis of presentation (continued)

The parent company records its investment in its subsidiaries, the VIE and subsidiaries of the VIE under the equity method of accounting as prescribed in ASC 323, *Investments-Equity Method and Joint Ventures*. Such investments are presented on the condensed balance sheets as “Investment in subsidiaries, VIE and VIE’s subsidiaries” and their respective loss as “Share of loss in subsidiaries, VIE and VIE’s subsidiaries” on the condensed statements of loss. Equity method accounting ceases when the carrying amount of the investment, including any additional financial support, in a subsidiary, the VIE and subsidiaries of the VIE is reduced to zero unless the parent company has guaranteed obligations of the subsidiary, the VIE and subsidiaries of the VIE or is otherwise committed to provide further financial support. If the subsidiary, the VIE and subsidiaries of the VIE subsequently reports net income, the parent company shall resume applying the equity method only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

The parent company’s condensed financial statements should be read in conjunction with the Company’s consolidated financial statements.

26. Subsequent Events

As a result of the declaration of FDIC according to insolvency of Silicon Valley Bank (“SVB”) on March 10, 2023, the Company withdraw almost all our deposits with SVB. The remaining deposits at SVB as of the date of this annual report is not material.

**Description of rights of securities
registered under Section 12 of the Securities Exchange Act of 1934 (the “Exchange Act”)**

American Depositary Shares (“ADSs”), each of which represents ten Class A ordinary shares of Quhuo Limited (“we,” “us,” “our company,” or “our”), are listed and traded on the Nasdaq Global Market and, in connection with this listing (but not for trading), the Class A ordinary shares are registered under Section 12(b) of the Exchange Act. This exhibit contains a description of the rights of (1) the holders of Class A ordinary shares, and (2) the holders of ADSs. Class A ordinary shares underlying the ADSs are held by the Deutsche Bank Trust Company Americas, as depositary, and holders of ADSs will not be treated as holders of Class A ordinary shares.

Description of Class A Ordinary Shares

The following is a summary of material provisions of our currently effective second amended and restated memorandum of association (the “Memorandum and Articles of Association”) as well as the Companies Act (As Revised) of the Cayman Islands (the “Companies Act”) insofar as they relate to the material terms of our Class A ordinary shares. As it is a summary, it may not contain all the information that you may otherwise deem important. For more complete information, you should read the entire Memorandum and Articles of Association, which has been filed with the Securities and Exchange Commission (the “SEC”) as exhibit 1.1 to our annual report on Form 20-F for the fiscal year ended December 31, 2020.

Type and Class of Securities (Item 9.A.5 of Form 20-F)

The par value of Class A ordinary share is US\$0.0001 per share. The number of Class A ordinary shares that had been issued as of December 31, 2020 is provided on the cover of the annual report on Form 20-F for the fiscal year ended December 31, 2020. Certificates representing the ordinary shares are issued in registered form. We may not issue shares to bearer. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares.

Preemptive Rights (Item 9.A.3 of Form 20-F)

Our shareholders do not have preemptive rights.

Limitations or Qualifications (Item 9.A.6 of Form 20-F)

We have a dual-class share structure which consists of Class A ordinary shares and Class B ordinary shares. In respect of all matters upon which the ordinary shares are entitled to vote, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to fifteen (15) votes, voting together as one class. Due to the super voting power of Class B ordinary share holder, the voting power of the Class A ordinary shares may be limited.

Rights of Other Types of Securities (Item 9.A.7 of Form 20-F)

Not applicable.

Rights of Class A Ordinary Shares (Item 10.B.3 of Form 20-F)

Classes of Ordinary Shares

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of our Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights. The Class A ordinary shares and Class B ordinary shares carry equal rights and rank *pari passu* with one another, including the rights to dividends and other capital distributions.

Conversion

Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any sale, transfer, assignment or disposition of Class B ordinary shares by a holder thereof to any person other than Mr. Leslie Yu or his affiliates, or upon a change of ultimate beneficial ownership of any Class B ordinary share to any person other than Mr. Leslie Yu or his affiliates, such Class B ordinary shares shall be automatically and immediately converted into the same number of Class A ordinary shares.

Dividends

The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors, subject to our Memorandum and Articles of Association. In addition, our shareholders may by an ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Our Memorandum and Articles of Association provide that our directors may, before recommending or declaring any dividend, set aside out of the funds legally available for distribution such sums as they think proper as a reserve or reserves which shall, in the absolute discretion of our directors, be applicable for meeting contingencies or for equalizing dividends or for any other purpose to which those funds may be properly applied. Under the laws of the Cayman Islands, our company may pay a dividend out of either our profit or share premium account, provided that in no circumstances may a dividend be paid if, immediately after this payment, this would result in our company being unable to pay its debts as they fall due in the ordinary course of business.

Voting rights

Holders of Class A ordinary shares and Class B ordinary shares vote together as a single class on all matters submitted to a vote by our shareholders, except as may otherwise be required by law or provided for in our Memorandum and Articles of Association. Voting at any shareholders' meeting is by show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded. A poll may be demanded by the chairman of such meeting or any shareholder present in person or by proxy at the meeting. On a poll, each Class A ordinary share entitles the holder thereof to one vote, and each Class B ordinary share entitles the holder thereof to 15 votes.

An ordinary resolution to be passed at a meeting by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes cast attaching to the outstanding ordinary shares cast by those shareholders entitled to vote who are present or by proxy at a general meeting. Both ordinary resolutions and special resolutions may also be passed by a unanimous written resolution signed by all the shareholders of our company, as permitted by the Companies Act and our Memorandum and Articles of Association. A special resolution will be required for important matters such as a change of name or making changes to our Memorandum and Articles of Association. We may, among other things, subdivide or consolidate our shares by ordinary resolution.

General meetings of shareholders

As a Cayman Islands exempted company, we are not obligated by the Companies Act to call shareholders' annual general meetings. Our Memorandum and Articles of Association provide that we may (but are not obligated to) in each year hold a general meeting as our annual general meeting in which case we shall specify the meeting as such in the notices calling it, and the annual general meeting shall be held at such time and place as may be determined by our directors.

Shareholders' general meetings may be convened by the chairman of our board of directors or a majority of our board of directors. Advance notice of at least 10 calendar days is required for the convening of our annual general shareholders' meeting (if any) and any other general meeting of our shareholders. A quorum required for any general meeting of shareholders consists of one or more shareholder present or by proxy

or, if a corporation or other non-natural person by its duly authorized representative, representing not less than one-third of all votes attaching to the issued and outstanding shares in our company entitled to vote at general meetings.

The Companies Act provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our Memorandum and Articles of Association provide that upon the requisition of shareholders representing in aggregate not less than one-third (1/3) of all votes attaching to the issued and outstanding shares of our company entitled to vote at general meetings as at the date of the deposit of the requisition, our board is obligated to convene an extraordinary general meeting and put the resolutions so requisitioned to a vote at such meeting. However, our Memorandum and Articles of Association do not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders.

Transfer of ordinary shares

Subject to the restrictions in our Memorandum and Articles of Association as set out below, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board of directors.

Our board of directors may, in its absolute discretion, decline to register any transfer of any share which is not fully paid up or on which we have a lien. Our board of directors may also decline to register any transfer of any share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of shares;
- the instrument of transfer is properly stamped, if required;
- in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four; and
- a fee of such maximum sum as NASDAQ may determine to be payable or such lesser sum as our directors may from time to time require is paid to us in respect thereof.

If our directors refuse to register a transfer they shall, within three calendar months after the date on which the transfer was lodged with us, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, after compliance with any notice requirement of NASDAQ, be suspended and the register closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 calendar days in any calendar year as our board may determine.

Liquidation

On a return of capital or the winding up of our company, if the assets available for distribution amongst our shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus shall be distributed amongst our shareholders in proportion to the par value of the shares held by them at the commencement of the winding up, subject to a deduction from those shares in respect of which there are monies due, of all monies payable to our company for unpaid calls or otherwise. If our assets available for distribution are insufficient to repay the whole of the share capital, the assets will be distributed so that the losses are borne by our shareholders in proportion to the par value of the shares held by them.

Calls on ordinary shares and forfeiture of ordinary shares

Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 calendar days prior to the specified time and place of payment. The shares that have been called upon and remain unpaid are subject to forfeiture.

Redemption, repurchase and surrender of ordinary shares

We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders of these shares, on such terms and in such manner as may be determined by our board of directors or by the shareholders by special resolution. Our company may also repurchase any of our shares (including any redeemable shares) on such terms and in such manner as have been approved by our board of directors or by an ordinary resolution of our shareholders. Under the Companies Act, the redemption or repurchase of any share may be paid out of our company's profits or out of the proceeds of a new issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if our company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Act no such share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding or (c) if our company has commenced liquidation. In addition, our company may accept the surrender of any fully paid share for no consideration.

Issuance of additional shares

Our Memorandum and Articles of Association authorizes our board of directors to issue additional Class A ordinary shares from time to time as our board of directors shall determine, to the extent of available authorized but unissued shares.

Our Memorandum and Articles of Association also authorizes our board of directors to issue from time to time out of the authorized share capital of the company (other than the authorized but unissued ordinary shares) series of preference shares and to determine, with respect to any series of preferred shares in their absolute discretion and without approval of the shareholders; provided, however, before any preferred shares of any such series are issued, the directors shall by resolution of directors determine, with respect to any series of preferred shares, the terms and rights of that series, including but not limited to:

- the designation of the series;
- the number of shares to constitute the series;
- the dividend rights, dividend rates, conversion rights, voting rights; and
- the rights and terms of redemption and liquidation preferences.

Our board of directors may issue preferred shares without action by our shareholders to the extent authorized but unissued. Issuance of these shares may dilute the voting power of holders of ordinary shares.

Inspection of books and records

Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records (other than our memorandum and articles of association, our register of mortgages and charges and special resolutions of our shareholders).

Election and removal of directors

Unless otherwise determined by our company in general meeting, our Memorandum and Articles of Association provide that our board of directors will consist of not less than three directors, with the exact number of directors to be determined from time to time by the board of directors. There are no provisions relating to retirement of directors upon reaching any age limit. The directors have the power to appoint any person as a director either to fill a casual vacancy on the board or as an addition to the existing board. Our shareholders may also appoint any person to be a director by way of ordinary resolution.

Subject to restrictions contained in our Memorandum and Articles of Association, a director may be removed with or without cause by ordinary resolution of our company. In addition, the office of any director shall be vacated if the director (1) becomes bankrupt or makes any arrangement or composition with his creditors, (2) dies or is found to be or becomes of unsound mind, (3) resigns his office by notice in writing to our company, (4) without special leave of absence from our board, is absent from three consecutive board meetings and our board resolves that his office be vacated, or (5) is removed from office pursuant to our Memorandum and Articles of Association.

Proceedings of board of directors

Our Memorandum and Articles of Association provide that our business is to be managed and conducted by our board of directors. The quorum necessary for board meetings may be fixed by the board and, unless so fixed at another number, will be a majority of the directors. Our Memorandum and Articles of Association provide that the board may from exercise all the powers of our company to raise or borrow money, to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof of our company to issue debentures, debenture stock, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of our company or of any third party.

Exempted company

We are an exempted company with limited liability under the Companies Act. The Companies Act distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except that an exempted company:

- does not have to file an annual return of its shareholders with the Registrar of Companies;
- is not required to open its register of members for inspection;
- does not have to hold an annual general meeting;
- may issue negotiable or bearer shares or shares with no par value;
- may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- may register as a limited duration company; and
- may register as a segregated portfolio company.

“Limited liability” means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of our company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

Register of members

Under Companies Act, we must keep a register of members and there should be entered therein:

- the names and addresses of the members, together with a statement of the shares held by each member, and such statement shall confirm (1) the amount paid or agreed to be considered as paid, on the shares of each member, (2) the number and category of shares held by each member, and (3) whether each relevant category of shares held by a member carries voting rights under the articles of association of the company, and if so, whether such voting rights are conditional;
- the date on which the name of any person was entered on the register as a member; and
- the date on which any person ceased to be a member.

Under Cayman Islands law, the register of members of our company is prima facie evidence of the matters set out therein (i.e., the register of members will raise a presumption of fact on the matters referred to above

unless rebutted) and a member registered in the register of members should be deemed as a matter of Cayman Islands law to have legal title to the shares as set against its name in the register of members.

If the name of any person is incorrectly entered in or omitted from our register of members, or if there is any default or unnecessary delay in entering on the register the fact of any person having ceased to be a member of our company, the person or member aggrieved (or any member of our company or our company itself) may apply to the Grand Court of the Cayman Islands for an order that the register be rectified, and the Court may either refuse such application or it may, if satisfied of the justice of the case, make an order for the rectification of the register.

Requirements to Change the Rights of Holders of Class A Ordinary Shares (Item 10.B.4 of Form 20-F)

Variations of rights of shares

Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under Cayman Islands law and our Memorandum and Articles of Association, if at any time, our share capital is divided into different classes of shares, the rights attached to any class of shares (unless otherwise provided by the terms of issue of the shares of that class) may be materially and adversely varied with the consent in writing of the holders of two-thirds of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of the class. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be materially adversely varied by the creation, allotment or issue of further shares ranking *pari passu* with or subsequent to them or the redemption or purchase of any shares of any class by our company. The rights of the holders of shares shall not be deemed to be materially adversely varied by the creation or issue of shares with preferred or other rights including without limitation the creation of shares with enhanced or weighted voting rights.

Limitations on the Rights to Own Class A Ordinary Shares (Item 10.B.6 of Form 20-F)

There are no limitations under the laws of the Cayman Islands or under the Memorandum and Articles of Association that limit the right of non-resident or foreign owners to hold or vote Class A ordinary shares, other than anti-takeover provisions contained in the Memorandum and Articles of Association to limit the ability of others to acquire control of our company or cause our company to engage in change-of-control transactions.

Provisions Affecting Any Change of Control (Item 10.B.7 of Form 20-F)

Anti-takeover provisions

Some provisions of our Memorandum and Articles of Association may discourage, delay or prevent a change of control of our company or management that shareholders may consider favorable, including provisions that:

- authorize our board of directors to issue preference shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preference shares without any further vote or action by our shareholders; and
- limit the ability of shareholders to requisition and convene general meetings of shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our Memorandum and Articles of Association for a proper purpose and for what they believe in good faith to be in the best interests of our company.

Ownership Threshold (Item 10.B.8 of Form 20-F)

There are no provisions under Cayman Islands law applicable to the Company, or under the Memorandum and Articles of Association, that require the Company to disclose shareholder ownership above any particular ownership threshold.

Differences Between the Law of Different Jurisdictions (Item 10.B.9 of Form 20-F)

The Companies Act is derived, to a large extent, from the older Companies Acts of England, but does not follow recent English law statutory enactments, and accordingly there are significant differences between the Companies Act and the current Companies Act of England. In addition, the Companies Act differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of certain significant differences between the provisions of the Companies Act applicable to us and the comparable provisions of the laws applicable to companies incorporated in the State of Delaware and their shareholders.

Mergers and similar arrangements

The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (1) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (2) a “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (1) a special resolution of the shareholders of each constituent company, and (2) such other authorization, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

A merger between a Cayman parent company and its Cayman subsidiary or subsidiaries does not require authorization by a resolution of shareholders of that Cayman subsidiary if a copy of the plan of merger is given to every member of that Cayman subsidiary to be merged unless that member agrees otherwise. For this purpose a company is a “parent” of a subsidiary if it holds issued shares that together represent at least ninety percent (90%) of the votes at a general meeting of the subsidiary.

The consent of each holder of a fixed or floating security interest over a constituent company is required unless this requirement is waived by a court in the Cayman Islands.

Save in certain limited circumstances, a shareholder of a Cayman constituent company who dissents from the merger or consolidation is entitled to payment of the fair value of his shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) upon dissenting to the merger or consolidation, provide the dissenting shareholder complies strictly with the procedures set out in the Companies Act. The exercise of dissenter rights will preclude the exercise by the dissenting shareholder of any other rights to which he or she might otherwise be entitled by virtue of holding shares, save for the right to seek relief on the grounds that the merger or consolidation is void or unlawful.

Separate from the statutory provisions relating to mergers and consolidations, the Companies Act also contains statutory provisions that facilitate the reconstruction and amalgamation of companies by way of schemes of arrangement, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The

convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the required majority vote have been met;
- the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class;
- the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Act.

The Companies Act also contains a statutory power of compulsory acquisition which may facilitate the “squeeze out” of dissentient minority shareholder upon a tender offer. When a tender offer is made and accepted by holders of 90.0% of the shares affected within four months, the offeror may, within a two-month period commencing on the expiration of such four-month period, require the holders of the remaining shares to transfer such shares to the offeror on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud, bad faith or collusion.

If an arrangement and reconstruction by way of scheme of arrangement is thus approved and sanctioned, or if a tender offer is made and accepted in accordance with the foregoing statutory procedures, a dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

Shareholders' suits

In principle, we will normally be the proper plaintiff and as a general rule a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, the Cayman Islands courts can be expected to follow English case law precedents and apply the common law principles (namely the rule in *Foss v. Harbottle* and the exceptions thereto) which permit a minority shareholder to commence a class action against, or derivative actions in the name of, the company to challenge:

- an act which is ultra vires or illegal and is therefore incapable of ratification by the shareholders;
- an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company; and
- an action which requires a resolution with a qualified (or special) majority which has not been obtained.

Indemnification of directors and executive officers and limitation of liability

Cayman Islands law does not limit the extent to which a company's memorandum and articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our Memorandum and Articles of Association provides that our directors and officers and the personal representatives of the same shall be indemnified against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained in or about the conduct of the company's business or affairs (including as a result of any mistake of judgment), provided that the indemnity shall not extend to any matter in respect of any willful default, fraud or dishonesty which may attach to any of said persons.

In addition, we have entered into indemnification agreements with our directors and executive officers that provide such persons with additional indemnification beyond that provided in our Memorandum and Articles of Association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted for our directors, officers or persons controlling us under the foregoing provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable as a matter of United States law.

Directors' fiduciary duties

Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director acts in a manner he reasonably believes to be in the best interests of the corporation. He must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, the director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore it is considered that he owes the following duties to the company—a duty to act bona fide in the best interests of the company, a duty not to make a profit based on his position as director (unless the company permits him to do so), a duty not to put himself in a position where the interests of the company conflict with his personal interest or his duty to a third party, and a duty to exercise powers for the purpose for which such powers were intended. A director of a Cayman Islands company owes to the company a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands.

Shareholder action by written consent

Under the Delaware General Corporation Law, a corporation may eliminate the right of shareholders to act by written consent by amendment to its certificate of incorporation. The Companies Act and our Memorandum and Articles of Association provide that shareholders may approve corporate matters by way of a unanimous written resolution signed by or on behalf of each shareholder who would have been entitled to vote on such matter at a general meeting without a meeting being held.

Shareholder proposals

Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

The Companies Act provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our Memorandum and Articles of Association allow our shareholders holding not less than one-third of all votes attaching to all issued and outstanding shares of our company entitled to vote at general meetings to requisition a shareholder's meeting, in which case our directors shall convene an extraordinary general meeting. Other than this right to requisition a shareholders' meeting, our Memorandum and Articles of Association do not provide our shareholders other right to put proposal before annual general meetings or extraordinary general meetings not called by such shareholders. As an exempted Cayman Islands company, we are not obligated by law to call shareholders' annual general meetings.

Cumulative voting

Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. There are no prohibitions in relation to cumulative voting under the Companies Act but our Memorandum and Articles of Association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

Removal of directors

Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our Memorandum and Articles of Association, subject to certain restrictions as contained therein, directors may be removed with or without cause, by an ordinary resolution of our shareholders. An appointment of a director may be on terms that the director shall automatically retire from office (unless he has sooner vacated office) at the next or a subsequent annual general meeting or upon any specified event or after any specified period in a written agreement between the company and the director, if any; but no such term shall be implied in the absence of express provision. A director shall hold office until the expiration of his or her term or his or her successor shall have been elected and qualified, or until his or her office is otherwise vacated. In addition, a director's office shall be vacated if the director (1) becomes bankrupt or makes any arrangement or composition with his creditors; (2) is found to be or becomes of unsound mind or dies; (3) resigns his office by notice in writing to the company; (4) without special leave of absence from our board of directors, is absent from three consecutive meetings of the board and the board resolves that his office be vacated; or (5) is removed from office pursuant to any other provisions of our Memorandum and Articles of Association.

Transactions with interested shareholders

The Delaware General Corporation Law contains a business combination statute applicable to Delaware corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target's outstanding voting share within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, the directors of the company are required to comply with the fiduciary duties which they owe to the company under Cayman Islands law, including the duty to ensure that, in their opinion, any such transactions entered into are bona fide in the best interests of the company, and are entered into for a proper corporate purpose and not with the effect of constituting a fraud on the minority shareholders.

Dissolution; winding up

Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board.

Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its members or, if the company is unable to pay its debts as they fall due, by an ordinary resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

Variations of rights of shares

Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under Cayman Islands law and our Memorandum and Articles of Association, if at any time, our share capital is divided into different classes of shares, the rights attached to any class of shares (unless otherwise provided by the terms of issue of the shares of that class) may be materially and adversely varied with the consent in writing of the holders of two-thirds of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of the class. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be materially adversely varied by the creation, allotment or issue of further shares ranking *pari passu* with or subsequent to them or the redemption or purchase of any shares of any class by our company. The rights of the holders of shares shall not be deemed to be materially adversely varied by the creation or issue of shares with preferred or other rights including without limitation the creation of shares with enhanced or weighted voting rights.

Amendment of governing documents

Under the Delaware General Corporation Law, a corporation's governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under Cayman Islands law, our Memorandum and Articles of Association may only be amended with a special resolution of our shareholders.

Rights of non-resident or foreign shareholders

There are no limitations imposed by our Memorandum and Articles of Association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our Memorandum and Articles of Association that require our company to disclose shareholder ownership above any particular ownership threshold.

Inspection of books and records

Under the Delaware General Corporation Law, any shareholder of a corporation may for any proper purpose inspect or make copies of the corporation's stock ledger, list of shareholders and other books and records.

Holders of our shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records (save for our Articles, our register of mortgages and charges and special resolutions of our shareholders). However, we intend to provide our shareholders with annual reports containing audited financial statements.

Changes in Capital (Item 10.B.10 of Form 20-F)

Our shareholders may from time to time by ordinary resolution:

- increase our share capital by such sum, to be divided into shares of such classes and amount, as the resolution shall prescribe;
- consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares;
- sub-divide our existing shares, or any of them into shares of a smaller amount as fixed by the Memorandum and Articles of Association, provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in case of the share from which the reduced share is derived; or
- cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the shares so cancelled.

Our shareholders may by special resolution reduce our share capital or any capital redemption reserve in any manner permitted by law.

Debt Securities (Item 12.A of Form 20-F)

Not applicable.

Warrants and Rights (Item 12.B of Form 20-F)

Not applicable.

Other Securities (Item 12.C of Form 20-F)

Not applicable.

Description of American Depositary Shares (Item 12.D.1 and 12.D.2 of Form 20-F)

General

Deutsche Bank Trust Company Americas, as depositary, registers and delivers the ADSs. Each ADS represents ownership of one Class A ordinary share, deposited with Deutsche Bank AG, Hong Kong Branch, as custodian for the depositary. Each ADS also represents ownership of any other securities, cash or other property which may be held by the depositary. The depositary's corporate trust office at which the ADSs will be administered is located at 60 Wall Street, New York, NY 10005, USA. The principal executive office of the depositary is located at 60 Wall Street, New York, NY 10005, USA.

You may hold ADSs either (1) directly (a) by having an American Depositary Receipt, or ADR, which is a certificate evidencing a specific number of ADSs, registered in your name, or (b) by holding ADSs in DRS, or (2) indirectly through your broker or other financial institution. If you hold ADSs directly, you are an ADS holder. This description assumes you hold your ADSs directly. ADSs will be issued through DRS, unless you specifically request certificated ADRs. If you hold the ADSs indirectly, you must rely on the

procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

We will not treat ADS holders as our shareholders and accordingly, you, as an ADS holder, will not have shareholder rights. Cayman Islands law governs shareholder rights. The depositary will be the holder of the ordinary shares underlying your ADSs. As a holder of ADSs, you will have ADS holder rights. A deposit agreement among us, the depositary and you, as an ADS holder, and the beneficial owners of ADSs sets out ADS holder rights as well as the rights and obligations of the depositary. The laws of the State of New York govern the deposit agreement and the ADSs.

The following is a summary of the material provisions of the deposit agreement. Notwithstanding this, because it is a summary, it may not contain all the information that you may otherwise deem important. For more complete information, you should read the entire deposit agreement and the form of ADR which contains the terms of your ADSs, which are filed as exhibit 2.3 to our annual report on Form 20-F for the fiscal year ended December 31, 2020.

Dividends and Other Distributions

How will you receive dividends and other distributions on the shares underlying the ADSs?

The depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on ordinary shares or other deposited securities, after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent as of the record date (which will be as close as practicable to the record date for our ordinary shares) set by the depositary with respect to the ADSs.

- *Cash.* The depositary will convert or cause to be converted any cash dividend or other cash distribution we pay on the ordinary shares or any net proceeds from the sale of any ordinary shares, rights, securities or other entitlements under the terms of the deposit agreement into U.S. dollars if it can do so on a practicable basis, and can transfer the U.S. dollars to the United States and will distribute promptly the amount thus received. If the depositary shall determine in its judgment that such conversions or transfers are not practical or lawful or if any government approval or license is needed and cannot be obtained at a reasonable cost within a reasonable period or otherwise sought, the deposit agreement allows the depositary to distribute the foreign currency only to those ADS holders to whom it is possible to do so. It will hold or cause the custodian to hold the foreign currency it cannot convert for the account of the ADS holders who have not been paid and such funds will be held for the respective accounts of the ADS holders. It will not invest the foreign currency and it will not be liable for any interest for the respective accounts of the ADS holders.

Before making a distribution, any taxes or other governmental charges, together with fees and expenses of the depositary, that must be paid, will be deducted. See “Taxation.” It will distribute only whole U.S. dollars and cents and will round down fractional cents to the nearest whole cent. If the exchange rates fluctuate during a time when the depositary cannot convert the foreign currency, you may lose some or all of the value of the distribution.

- *Shares.* For any ordinary shares we distribute as a dividend or free distribution, either (1) the depositary will distribute additional ADSs representing such ordinary shares or (2) existing ADSs as of the applicable record date will represent rights and interests in the additional ordinary shares distributed, to the extent reasonably practicable and permissible under law, in either case, net of applicable fees, charges and expenses incurred by the depositary and taxes and/or other governmental charges. The depositary will only distribute whole ADSs. It will try to sell ordinary shares which would require it to deliver a fractional ADS and distribute the net proceeds in the same way as it does with cash. The depositary may sell a portion of the distributed ordinary shares sufficient to pay its fees and expenses, and any taxes and governmental charges, in connection with that distribution.
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- *Elective Distributions in Cash or Shares.* If we offer holders of our ordinary shares the option to receive dividends in either cash or shares, the depositary, after consultation with us and having received timely notice as described in the deposit agreement of such elective distribution by us, has discretion to determine to what extent such elective distribution will be made available to you as a holder of the ADSs. We must timely first instruct the depositary to make such elective distribution available to you and furnish it with satisfactory evidence that it is legal to do so. The depositary could decide it is not legal or reasonably practicable to make such elective distribution available to you. In such case, the depositary shall, on the basis of the same determination as is made in respect of the ordinary shares for which no election is made, distribute either cash in the same way as it does in a cash distribution, or additional ADSs representing ordinary shares in the same way as it does in a share distribution. The depositary is not obligated to make available to you a method to receive the elective dividend in shares rather than in ADSs. There can be no assurance that you will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of ordinary shares.
- *Rights to Purchase Additional Shares.* If we offer holders of our ordinary shares any rights to subscribe for additional shares, the depositary shall having received timely notice as described in the deposit agreement of such distribution by us, consult with us, and we must determine whether it is lawful and reasonably practicable to make these rights available to you. We must first instruct the depositary to make such rights available to you and furnish the depositary with satisfactory evidence that it is legal to do so. If the depositary decides it is not legal or reasonably practicable to make the rights available but that it is lawful and reasonably practicable to sell the rights, the depositary will endeavor to sell the rights and in a riskless principal capacity or otherwise, at such place and upon such terms (including public or private sale) as it may deem proper distribute the net proceeds in the same way as it does with cash. The depositary will allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them.

If the depositary makes rights available to you, it will establish procedures to distribute such rights and enable you to exercise the rights upon your payment of applicable fees, charges and expenses incurred by the depositary and taxes and/or other governmental charges. The Depositary shall not be obligated to make available to you a method to exercise such rights to subscribe for ordinary shares (rather than ADSs).

U.S. securities laws may restrict transfers and cancellation of the ADSs represented by shares purchased upon exercise of rights. For example, you may not be able to trade these ADSs freely in the United States. In this case, the depositary may deliver restricted depositary shares that have the same terms as the ADSs described in this section except for changes needed to put the necessary restrictions in place.

There can be no assurance that you will be given the opportunity to exercise rights on the same terms and conditions as the holders of ordinary shares or be able to exercise such rights.

- *Other Distributions.* Subject to receipt of timely notice, as described in the deposit agreement, from us with the request to make any such distribution available to you, and provided the depositary has determined such distribution is lawful and reasonably practicable and feasible and in accordance with the terms of the deposit agreement, the depositary will distribute to you anything else we distribute on deposited securities by any means it may deem practicable, upon your payment of applicable fees, charges and expenses incurred by the depositary and taxes and/or other governmental charges. If any of the conditions above are not met, the depositary will endeavor to sell, or cause to be sold, what we distributed and distribute the net proceeds in the same way as it does with cash; or, if it is unable to sell such property, the depositary may dispose of such property in any way it deems reasonably practicable under the circumstances for nominal or no consideration, such that you may have no rights to or arising from such property.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADS holders. We have no obligation to register ADSs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, shares, rights or anything else to ADS holders. This means that you may not receive the distributions we make on our shares or any value for them if we and/or the depositary determines that it is illegal or not practicable for us or the depositary to make them available to you.

Deposit, Withdrawal and Cancellation

How are ADSs issued?

The depositary will deliver ADSs if you or your broker deposit ordinary shares or evidence of rights to receive ordinary shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will register the appropriate number of ADSs in the names you request and will deliver the ADSs to or upon the order of the person or persons entitled thereto.

How do ADS holders cancel an American Depositary Share?

You may turn in your ADSs at the depositary's corporate trust office or by providing appropriate instructions to your broker. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will deliver the ordinary shares and any other deposited securities underlying the ADSs to you or a person you designate at the office of the custodian. Or, at your request, risk and expense, the depositary will deliver the deposited securities at its corporate trust office, to the extent permitted by law.

How do ADS holders interchange between Certificated ADSs and Uncertificated ADSs?

You may surrender your ADR to the depositary for the purpose of exchanging your ADR for uncertificated ADSs. The depositary will cancel that ADR and will send you a statement confirming that you are the owner of uncertificated ADSs. Alternatively, upon receipt by the depositary of a proper instruction from a holder of uncertificated ADSs requesting the exchange of uncertificated ADSs for certificated ADSs, the depositary will execute and deliver to you an ADR evidencing those ADSs.

Voting Rights

How do you vote?

You may instruct the depositary to vote the ordinary shares or other deposited securities underlying your ADSs at any meeting at which you are entitled to vote pursuant to any applicable law, the provisions of our memorandum and articles of association, and the provisions of or governing the deposited securities. Otherwise, you could exercise your right to vote directly if you withdraw the ordinary shares. However, you may not know about the meeting sufficiently enough in advance to withdraw the ordinary shares.

If we ask for your instructions and upon timely notice from us by regular, ordinary mail delivery, or by electronic transmission, as described in the deposit agreement, the depositary will notify you of the upcoming meeting at which you are entitled to vote pursuant to any applicable law, the provisions of our memorandum and articles of association, and the provisions of or governing the deposited securities, and arrange to deliver our voting materials to you. The materials will include or reproduce (a) such notice of meeting or solicitation of consents or proxies; (b) a statement that the ADS holders at the close of business on the ADS record date will be entitled, subject to any applicable law, the provisions of our memorandum and articles of association, and the provisions of or governing the deposited securities, to instruct the depositary as to the exercise of the voting rights, if any, pertaining to the ordinary shares or other deposited securities represented by such holder's ADSs; and (c) a brief statement as to the manner in which such instructions may be given or deemed given in accordance with the second to last sentence of this paragraph if no instruction is received, to the depositary to give a discretionary proxy to a person designated by us. Voting instructions may be given only in respect of a number of ADSs representing an integral number of ordinary shares or other deposited securities. For instructions to be valid, the depositary must receive them in writing on or before the date specified. The depositary will try, as far as practical, subject to applicable law and the provisions of our memorandum and articles of association, to vote or to have its agents vote the ordinary shares or other deposited securities (in person or by proxy) as you instruct. The depositary will only vote or attempt to vote as you instruct. If we timely requested the depositary to solicit your instructions but no instructions are received by the depositary from an owner with respect to any of the deposited securities represented by the ADSs of that owner on or before the date established by the

depository for such purpose, the depository shall deem that owner to have instructed the depository to give a discretionary proxy to a person designated by us with respect to such deposited securities, and the depository shall give a discretionary proxy to a person designated by us to vote such deposited securities. However, no such instruction shall be deemed given and no such discretionary proxy shall be given with respect to any matter if we inform the depository we do not wish such proxy given, substantial opposition exists or the matter materially and adversely affects the rights of holders of the Class A ordinary shares.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depository to vote the ordinary shares underlying your ADSs. In addition, there can be no assurance that ADS holders and beneficial owners generally, or any holder or beneficial owner in particular, will be given the opportunity to vote or cause the custodian to vote on the same terms and conditions as the holders of our ordinary shares.

The depository and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote and you may have no recourse if the ordinary shares underlying your ADSs are not voted as you requested.

In order to give you a reasonable opportunity to instruct the depository as to the exercise of voting rights relating to deposited securities, if we request the depository to act, we will give the depository notice of any such meeting and details concerning the matters to be voted at least 30 business days in advance of the meeting date.

Compliance with Regulations

Information requests

Each ADS holder and beneficial owner shall (a) provide such information as we or the depository may request pursuant to law, including, without limitation, relevant Cayman Islands law, any applicable law of the United States of America, our memorandum and articles of association, any resolutions of our Board of Directors adopted pursuant to such memorandum and articles of association, the requirements of any markets or exchanges upon which the ordinary shares, ADSs or ADRs are listed or traded, or to any requirements of any electronic book-entry system by which the ADSs or ADRs may be transferred, regarding the capacity in which they own or owned ADRs, the identity of any other persons then or previously interested in such ADRs and the nature of such interest, and any other applicable matters, and (b) be bound by and subject to applicable provisions of the laws of the Cayman Islands, our memorandum and articles of association, and the requirements of any markets or exchanges upon which the ADSs, ADRs or ordinary shares are listed or traded, or pursuant to any requirements of any electronic book-entry system by which the ADSs, ADRs or ordinary shares may be transferred, to the same extent as if such ADS holder or beneficial owner held ordinary shares directly, in each case irrespective of whether or not they are ADS holders or beneficial owners at the time such request is made.

Disclosure of interests

Each ADS holder and beneficial owner shall comply with our requests pursuant to Cayman Islands law, the rules and requirements of NASDAQ and any other stock exchange on which the ordinary shares are, or will be, registered, traded or listed or our memorandum and articles of association, which requests are made to provide information, inter alia, as to the capacity in which such ADS holder or beneficial owner owns ADS and regarding the identity of any other person interested in such ADS and the nature of such interest and various other matters, whether or not they are ADS holders or beneficial owners at the time of such requests.

Payment of Taxes

You will be responsible for any taxes or other governmental charges payable, or which become payable, on your ADSs or on the deposited securities represented by any of your ADSs. The depository may refuse to

register or transfer your ADSs or allow you to withdraw the deposited securities represented by your ADSs until such taxes or other charges are paid. It may apply payments owed to you or sell deposited securities represented by your ADSs to pay any taxes owed and you will remain liable for any deficiency. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to you any net proceeds, or send to you any property, remaining after it has paid the taxes. You agree to indemnify us, the depositary, the custodian and each of our and their respective agents, directors, employees and affiliates for, and hold each of them harmless from, any claims with respect to taxes (including applicable interest and penalties thereon) arising from any refund of taxes, reduced rate of withholding at source or other tax benefit obtained for you. Your obligations under this paragraph shall survive any transfer of ADRs, any surrender of ADRs and withdrawal of deposited securities or the termination of the deposit agreement.

Reclassifications, Recapitalizations and Mergers

If we:

Change the nominal or par value of our ordinary shares

Reclassify, split up or consolidate any of the deposited securities

Distribute securities on the ordinary shares that are not distributed to you, or recapitalize, reorganize, merge, liquidate, sell all or substantially all of our assets, or take any similar action

Then:

The cash, shares or other securities received by the depositary will become deposited securities.

Each ADS will automatically represent its equal share of the new deposited securities.

The depositary may distribute some or all of the cash, shares or other securities it received. It may also deliver new ADSs or ask you to surrender your outstanding ADRs in exchange for new ADRs identifying the new deposited securities.

Amendment and Termination

How may the deposit agreement be amended?

We may agree with the depositary to amend the deposit agreement and the form of ADR without your consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the depositary for registration fees, facsimile costs, delivery charges or similar items, including expenses incurred in connection with foreign exchange control regulations and other charges specifically payable by ADS holders under the deposit agreement, or materially prejudices a substantial existing right of ADS holders, it will not become effective for outstanding ADSs until 30 days after the depositary notifies ADS holders of the amendment. At the time an amendment becomes effective, you are considered, by continuing to hold your ADSs, to agree to the amendment and to be bound by the ADRs and the deposit agreement as amended. If any new laws are adopted which would require the deposit agreement to be amended in order to comply therewith, we and the depositary may amend the deposit agreement in accordance with such laws and such amendment may become effective before notice thereof is given to ADS holders.

How may the deposit agreement be terminated?

The depositary will terminate the deposit agreement if we ask it to do so, in which case the depositary will give notice to you at least 90 days prior to termination. The depositary may also terminate the deposit agreement if the depositary has told us that it would like to resign, or if we have removed the depositary, and in either case we have not appointed a new depositary within 90 days. In either such case, the depositary must notify you at least 30 days before termination.

After termination, the depositary and its agents will do the following under the deposit agreement but nothing else: collect distributions on the deposited securities, sell rights and other property and deliver ordinary shares and other deposited securities upon cancellation of ADSs after payment of any fees, charges, taxes or other governmental charges. Six months or more after the date of termination, the depositary may sell any remaining deposited securities by public or private sale. After that, the depositary will hold the money it received on the sale, as well as any other cash it is holding under the deposit

agreement, for the pro rata benefit of the ADS holders that have not surrendered their ADSs. It will not invest the money and has no liability for interest. After such sale, the depositary's only obligations will be to account for the money and other cash. After termination, we shall be discharged from all obligations under the deposit agreement except for our obligations to the depositary thereunder.

Books of Depositary

The depositary maintains ADS holder records at its depositary office. You may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the Company, the ADRs and the deposit agreement.

The depositary maintains facilities in the Borough of Manhattan, The City of New York to record and process the issuance, cancellation, combination, split-up and transfer of ADRs.

These facilities may be closed at any time or from time to time when such action is deemed necessary or advisable by the depositary in connection with the performance of its duties under the deposit agreement or at our reasonable written request.

Limitations on Obligations and Liability to ADR holders

Limits on our Obligations and the Obligations of the Depositary and the Custodian; Limits on Liability to Holders of ADSs

The deposit agreement expressly limits our obligations and the obligations of the depositary and the custodian. It also limits our liability and the liability of the depositary. The depositary and the custodian:

- are only obligated to take the actions specifically set forth in the deposit agreement without gross negligence or willful misconduct;
 - are not liable if any of us or our respective controlling persons or agents are prevented or forbidden from, or subjected to any civil or criminal penalty or restraint on account of, or delayed in, doing or performing any act or thing required by the terms of the deposit agreement and any ADR, by reason of any provision of any present or future law or regulation of the United States or any state thereof, the Cayman Islands or any other country, or of any other governmental authority or regulatory authority or stock exchange, or on account of the possible criminal or civil penalties or restraint, or by reason of any provision, present or future, of our memorandum and articles of association or any provision of or governing any deposited securities, or by reason of any act of God or war or other circumstances beyond its control (including, without limitation, nationalization, expropriation, currency restrictions, work stoppage, strikes, civil unrest, revolutions, rebellions, explosions and computer failure);
 - are not liable by reason of any exercise of, or failure to exercise, any discretion provided for in the deposit agreement or in our memorandum and articles of association or provisions of or governing deposited securities;
 - are not liable for any action or inaction of the depositary, the custodian or us or their or our respective controlling persons or agents in reliance upon the advice of or information from legal counsel, any person presenting ordinary shares for deposit or any other person believed by it in good faith to be competent to give such advice or information;
 - are not liable for the inability of any holder of ADSs to benefit from any distribution on deposited securities that is not made available to holders of ADSs under the terms of the deposit agreement;
 - are not liable for any special, consequential, indirect or punitive damages for any breach of the terms of the deposit agreement, or otherwise;
 - may rely upon any documents we believe in good faith to be genuine and to have been signed or presented by the proper party;
 - disclaim any liability for any action or inaction of any of us or our respective controlling persons or agents in reliance upon the advice of or information from legal counsel, accountants, any person presenting ordinary shares for deposit, holders and beneficial owners (or authorized representatives) of ADSs, or any person believed in good faith to be competent to give such advice or information; and
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- disclaim any liability for inability of any holder to benefit from any distribution, offering, right or other benefit made available to holders of deposited securities but not made available to holders of ADS.

The depositary and any of its agents also disclaim any liability (i) for any failure to carry out any instructions to vote, the manner in which any vote is cast or the effect of any vote or failure to determine that any distribution or action may be lawful or reasonably practicable or for allowing any rights to lapse in accordance with the provisions of the deposit agreement, (ii) the failure or timeliness of any notice from us, the content of any information submitted to it by us for distribution to you or for any inaccuracy of any translation thereof, (iii) any investment risk associated with the acquisition of an interest in the deposited securities, the validity or worth of the deposited securities, the credit-worthiness of any third party, (iv) for any tax consequences that may result from ownership of ADSs, ordinary shares or deposited securities, or (v) for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the depositary or in connection with any matter arising wholly after the removal or resignation of the depositary, provided that in connection with the issue out of which such potential liability arises the depositary performed its obligations without gross negligence or willful misconduct while it acted as depositary.

In the deposit agreement, we agree to indemnify the depositary under certain circumstances.

Jurisdiction and Arbitration

The laws of the State of New York govern the deposit agreement and the ADSs and we have agreed with the depositary that the federal or state courts in the City of New York shall have exclusive jurisdiction to hear and determine any dispute arising from or in connection with the deposit agreement which may include claims arising under the U.S. federal securities laws, and that the depositary may in its sole direction, require that any claim or dispute arising from the relationship created by the deposit agreement be referred to and finally settled by an arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Although ADS holders, including holders that acquired ADSs in a secondary transaction, are subject to the arbitration provisions of the deposit agreement, the arbitration provisions do not preclude ADS holders from pursuing claims under the U.S. federal securities laws in federal courts. The arbitration provision of the deposit agreement is not intended to be deemed a waiver by any holder or beneficial owner of ADSs or by us or the depositary of compliance with the U.S. federal securities laws and the rules and regulations promulgated thereunder.

Jury Trial Waiver

The deposit agreement provides that each party to the deposit agreement (including each holder, beneficial owner and holder of interests in the ADRs) irrevocably waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in any lawsuit or proceeding against us or the depositary arising out of or relating to our shares, the ADSs or the deposit agreement, including any claim under the U.S. federal securities laws. If we or the depositary opposed a jury trial demand based on the waiver, the court would determine whether the waiver was enforceable based on the facts and circumstances of that case in accordance with the applicable law. No condition, stipulation or provision of the deposit agreement or ADSs serves as a waiver by any holder or beneficial owner of ADSs or by us or the depositary of compliance with the U.S. federal securities laws and the rules and regulations promulgated thereunder.

Requirements for Depositary Actions

Before the depositary will issue, deliver or register a transfer of an ADS, split-up, subdivide or combine ADSs, make a distribution on an ADS, or permit withdrawal of ordinary shares, the depositary may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any ordinary shares or other deposited securities and payment of the applicable fees, expenses and charges of the depositary;
 - satisfactory proof of the identity and genuineness of any signature or any other matters contemplated in the deposit agreement;
 - and
-

- compliance with (A) any laws or governmental regulations relating to the execution and delivery of ADRs or ADSs or to the withdrawal or delivery of deposited securities and (B) such reasonable regulations and procedures as the depositary may establish, from time to time, consistent with the deposit agreement and applicable laws, including presentation of transfer documents.

The depositary may refuse to issue and deliver ADSs or register transfers of ADSs generally when the register of the depositary or our transfer books are closed or at any time if the depositary or we determine that it is necessary or advisable to do so.

Your Right to Receive the Shares Underlying Your ADSs

You have the right to cancel your ADSs and withdraw the underlying ordinary shares at any time except:

- when temporary delays arise because: (1) the depositary has closed its transfer books or we have closed our transfer books; (2) the transfer of ordinary shares is blocked to permit voting at a shareholders' meeting; or (3) we are paying a dividend on our ordinary shares;
- when you owe money to pay fees, taxes and similar charges;
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of ordinary shares or other deposited securities, or
- other circumstances specifically contemplated by Section I.A.(I) of the General Instructions to Form F-6 (as such General Instructions may be amended from time to time); or
- for any other reason if the depositary or we determine, in good faith, that it is necessary or advisable to prohibit withdrawals.

The depositary shall not knowingly accept for deposit under the deposit agreement any ordinary shares or other deposited securities required to be registered under the provisions of the Securities Act, unless a registration statement is in effect as to such ordinary shares.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

Direct Registration System

In the deposit agreement, all parties to the deposit agreement acknowledge that the DRS and Profile Modification System, or Profile, will apply to uncertificated ADSs upon acceptance thereof to DRS by DTC. DRS is the system administered by DTC pursuant to which the depositary may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the depositary to the ADS holders entitled thereto. Profile is a required feature of DRS which allows a DTC participant, claiming to act on behalf of an ADS holder, to direct the depositary to register a transfer of those ADSs to DTC or its nominee and to deliver those ADSs to the DTC account of that DTC participant without receipt by the depositary of prior authorization from the ADS holder to register such transfer.

List of Principal Subsidiaries and Affiliated Entities of Quhuo Limited

Subsidiaries	Place of Incorporation
Quhuo Investment Limited	BVI
Quhuo Technology Investment (Hong Kong) Limited	Hong Kong
Beijing Quhuo Information Technology Co., Ltd.	PRC
Variable interest entity (“VIE”)	Place of Incorporation
Beijing Quhuo Technology Co., Ltd.	PRC
Subsidiaries of the VIE	
Shanghai Quhuo Network Technology Co., Ltd.	PRC
Ningbo Xinying Network Technology Co., Ltd.	PRC
Nantong Runda Marketing Planning Co., Ltd.	PRC
Shanghai Yijida Network Technology Co., Ltd.	PRC
Ningbo Desheng Wanchun Network Technology Co., Ltd.	PRC
Ningbo Quhuo Network Technology Co., Ltd.	PRC
Ningbo Dagong Network Technology Co., Ltd.	PRC
Jiangxi Youke Automobile Rental Service Co., Ltd.	PRC
Hainan Xinying Technology Co., Ltd.	PRC
Hainan Quhuo Technology Co., Ltd.	PRC
Haikou Chengtu Network Technology Co., Ltd.	PRC
Lailai Information Technology (Shenzhen) Co., Ltd.	PRC
Hainan Quxing Holdings Co., Ltd.	PRC

Certification by the Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Leslie Yu, certify that:

1. I have reviewed this annual report on Form 20-F of Quhuo Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

April 20, 2023

By: /s/ Leslie Yu

Name: Leslie Yu

Title: Chief Executive Officer

Certification by the Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Zhen Ba, certify that:

1. I have reviewed this annual report on Form 20-F of Quhuo Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

April 20, 2023

By: /s/ Zhen Ba
Name: Zhen Ba
Title: Chief Financial Officer

Certification by the Principal Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Quhuo Limited (the “Company”) on Form 20-F for the year ended December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Leslie Yu, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

April 20, 2023

By: /s/ Leslie Yu

Name: Leslie Yu

Title: Chief Executive Officer

Certification by the Principal Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Quhuo Limited (the “Company”) on Form 20-F for the year ended December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Zhen Ba, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

April 20, 2023

By: /s/ Zhen Ba
Name: Zhen Ba
Title: Chief Financial Officer

通商律師事務所

COMMERCE & FINANCE LAW OFFICES

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电邮 Email: beijing@tongshang.com 网址 Web: www.tongshang.com

Private and Confidential

CONSENT LETTER

To: Quhuo Limited (the “Company”)

3rd Floor, Block A, Tonghui Building
No. 1132 Huihe South Street, Chaoyang District
Beijing, 100020
People’s Republic of China

April 20, 2023

Dear Sirs,

We consent to the references to our firm under the heading “ITEM 3. KEY INFORMATION - D. Risk Factors - Risks Related to Our Business and Industry”, “ITEM 3. KEY INFORMATION - D. Risk Factors - Risks related to doing business in China”, “ITEM 3. KEY INFORMATION - D. Risk Factors - Risks Related to Our Corporate Structure” and “ITEM 4. INFORMATION ON THE COMPANY - C. Organizational Structure - Our Contractual Arrangements” in the Company’s Annual Report on Form 20-F for the year ended December 31, 2022 (the “**Annual Report**”), which is filed with the Securities and Exchange Commission (the “**SEC**”) on April 20, 2023. We also consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

[The remainder of this page is intentionally left blank.]

[Signature Page]

Yours sincerely,

Commerce & Finance Law Offices
/s/ Commerce & Finance Law Offices



INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the incorporation by reference in the Registration Statement of Quhuo Limited on Form S-8 No.333-248884 of our report dated April 20, 2023, with respect to our audit of the consolidated financial statements of Quhuo Limited as of December 31, 2022 and for the year ended December 31, 2022 included in this Annual Report on Form 20-F for the year ended December 31, 2022.

/s/ Marcum Asia CPAs LLP
Marcum Asia CPAs LLP
Beijing, PRC
April 20, 2023

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No.333-248884) pertaining to the 2019 Share Incentive Plan of Quhuo Limited of our report dated September 9, 2022, with respect to the consolidated financial statements of Quhuo Limited include in this Annual Report on Form 20-F for the year ended December 31, 2022.

/s/ Ernst & Young Hua Ming LLP

Shanghai, the People's Republic of China

April 20, 2023

April 20, 2023
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Ladies and Gentlemen:

We have read Item 16F of Form 20-F dated April 20, 2023 of Quhuo Limited and are in agreement with the statements contained in the second, third and fourth paragraphs therein. We have no basis to agree or disagree with other statements of the registrant contained therein.

Regarding the registrant's statement concerning the lack of internal control to prepare financial statements, included in the third paragraph of Item 16F, we had considered such matter in determining the nature, timing and extent of procedures performed in our audit of the registrant's 2020 financial statements in Form 20-F filed with the SEC on May 17, 2021.

/s/ Ernst & Young Hua Ming LLP
Shanghai, The People's Republic of China

April 20, 2023

VIA EDGAR

Office of Information Technologies and Services
Division of Corporation Finance
U.S. Securities & Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Re: Quhuo Limited
Submission under the Item 16I(a) of Form 20-F

Dear Sir/Madam,

In compliance with the Holding Foreign Companies Accountable Act, as amended (the “HFCAA”), Quhuo Limited (the “Company”) is submitting via EDGAR the following information as required under Item 16I(a) of Form 20-F.

Ernst & Young Hua Ming LLP (“EY”), a registered public accounting firm that the Public Company Accounting Oversight Board (the “PCAOB”) determined was unable to investigate or inspect fully because of positions taken by PRC authorities until December 2022 when the PCAOB vacated its previous determination, issued an audit report for the Company’s consolidated financial statements as of and for the three years ended December 31, 2021. On October 6, 2022, the U.S. Securities and Exchange Commission (the “SEC”) conclusively named us as a “commission-identified issuer” pursuant to the HFCAA after the Company filed its annual report on Form 20-F for the year ended December 31, 2021 with the SEC on September 9, 2022. In response to Item 16I(a) of Form 20-F, the Company believes that the following information establishes that it is not owned or controlled by a governmental entity in China.

To the Company’s knowledge and based on an examination of its register of members and public filings made by its shareholders, the Company respectfully submits that it is not owned or controlled by a governmental entity in China as of the date of this submission.

As of April 10, 2023, Mr. Leslie Yu, the chief executive director and the chairman of the board of directors of the Company, beneficially owned 12.6% of the Company’s outstanding ordinary shares, representing 64.0% of the aggregate voting power of the Company’s total issued and outstanding share capital. As of the same date, Quhuo Holding (BVI) Limited, the nominee of Quhuo Trust, directly held 10.9% of the Company’s outstanding shares, and the investment power and voting power of Quhuo Trust are retained by the Company, and/or after duly exercise of the options by the grantees pursuant to the Company’s share incentive plan, the participants thereunder. As of April 10, 2023, Mr. Shuyi Yang, Baidu Online Network Technology (Beijing) Co., Ltd., SBCVC Fund IV, L.P. and ClearVue YummyExpress Holdings, Ltd. beneficially owned 9.9%, 9.6%, 9.2% and 5.9% of the Company’s outstanding ordinary shares, respectively, representing 4.1%, 4.0%, 3.8% and 2.4% of the aggregate voting power of the Company’s total issued and outstanding share capital, respectively. Based on an examination of the Company’s

register of members and public filings made by the Company's shareholders, no other shareholder owned 5.0% or more of the Company's outstanding ordinary shares as of April 10, 2023. See "Item 6. Directors, Senior Management and Employees—E. Share Ownership" in the Company's annual report on Form 20-F for the year ended December 31, 2022 filed herewith for details.

In addition, the Company is not aware of any governmental entity in China that possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the Company, whether through the ownership of voting securities, by contract, or otherwise.

Should you have any questions or comments regarding the Company's submission set forth above, please do not hesitate to contact me. Thank you.

Very truly yours,

By: /s/ Leslie Yu

Name: Leslie Yu

Title: Chairman and Chief Executive Officer
