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

**FORM 20-F/A
(Amendment No. 1)**

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, 2017

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

Commission file number: 001-37871

Gridsum Holding Inc.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

South Wing, High Technology Building
No. 229 North 4th Ring Road
Haidian District, Beijing 100083
People's Republic of China
(Address of principal executive offices)

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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

American Depositary Shares, each representing one
Class B Ordinary Share, par value US\$0.001 per share
Class B Ordinary Shares, par value US\$0.001 per share*

Name of each exchange on which registered

The Nasdaq Stock Market LLC
The Nasdaq Stock Market LLC

* Not for trading, but only in connection with the listing on The Nasdaq Stock Market of the American Depositary Shares.

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

None

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

None

Indicate the number of 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.

As of December 31, 2017, there were 30,823,828 ordinary shares outstanding, par value \$0.001 per share, being the sum of 4,543,461 Class A ordinary shares and 26,280,367 Class B ordinary shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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 definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Emerging growth company

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.

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

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

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

† 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.

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EXPLANATORY NOTE

This Amendment No. 1 on Form 20-F/A (“Amendment No. 1”) to the Annual Report on Form 20-F of Gridsum Holding Inc. (the “Company”) for the fiscal year ended December 31, 2017 (the “2017 Form 20-F”), is being filed solely to:

- amend disclosure that appears under the heading “Item 3. Key Information—D. Risk Factors.” In particular, we updated a risk factor entitled “We identified material weaknesses in our internal controls as of December 31, 2016 and 2017, and if we fail to establish and maintain effective internal controls, our ability to report our financial results accurately or to prevent fraud may be adversely affected, and investor confidence and the market price of the ADSs may be adversely affected.”
- amend disclosure that appears under the heading “Item 15. Controls and Procedures.” In particular, we updated disclosure under the paragraphs captioned “Management’s Annual Report on Internal Control over Financial Reporting.”
- amend disclosure that appears under the heading “Item 16F. Change in Registrant’s Certifying Accountant.”
- update Exhibits 12.1, 12.2, 12.3, 15.3 and 15.4.

Other than as set forth herein, the Company has not modified or updated any other disclosures and has made no changes to the 2017 Form 20-F. Other than as expressly set forth above, this Amendment No. 1 does not, and does not purport to, amend, update or restate the information in any part of the 2017 Form 20-F or reflect any events that have occurred after the 2017 Form 20-F was filed on January 7, 2019. The filing of this Amendment No. 1, and the inclusion of newly executed certifications, should not be understood to mean that any other statements contained in the original filing are true and complete as of any date subsequent to January 7, 2019. Accordingly, this Amendment No. 1 should be read in conjunction with the 2017 Form 20-F and the documents filed with or furnished to the Securities and Exchange Commission by the Company subsequent to January 7, 2019, including any amendments to such documents.

PART I

ITEM 3. KEY INFORMATION

D. Risk Factors

The following important risk factors, and other risks that may be described in other reports we submit to or file with the SEC, could affect our actual results and cause those results to differ materially from what is expressed in forward-looking statements we make from time to time. If any of these risks actually occurs, our business, financial condition and results of operations could be materially adversely affected, the trading price of our ADSs could decline, and you could lose all or part of your investment.

Risks Relating to Our Business

We have a history of losses and we may not achieve or sustain profitability.

We have incurred net losses in each year since our inception in 2005, including net losses of RMB61.8 million, RMB98.6 million and RMB239.1 million (US\$36.8 million) in 2015, 2016 and 2017, respectively. We expect to continue to expend substantial financial and other resources on, among other things:

- investments in our research and development team and in the development of new solutions and enhancements of our existing solutions;
- sales and marketing, including expanding our sales force, increasing our customer base, increasing market awareness of our solutions and enhancing our brand;
- expanding of our operations and infrastructure;
- hiring additional employees; and
- general and administrative employees and executives, including administrative, legal, human resources, information technology, finance and accounting employees and executives, and other expenses related to being a public company.

These efforts may prove more expensive than we currently anticipate and may not result in increased revenues or growth of our business. We also expect that our revenue growth rate will decline over time and that our costs will increase. In 2018 we experienced a decline in the level of our business activity and related revenues. We may not be able to generate sufficient revenues to offset higher costs and achieve or sustain profitability. If we fail to achieve or sustain profitability, our business and operating results would be adversely affected.

Our limited operating history makes it difficult to evaluate our current business and future prospects, and increases the risk of your investment.

We launched our first data analytics solution in 2009, and introduced our other solutions to the market more recently. This limited operating history and the dynamic nature of the market in which we operate limit our ability to forecast future operating results and subject us to many uncertainties, including our ability to plan for and anticipate future growth. Our historical revenue growth should not be considered indicative of our future performance. We encounter risks and uncertainties frequently experienced by growing companies in rapidly changing industries, such as determining appropriate investments of our limited resources, market reception of our existing and future solutions, competition from other companies, attracting and retaining customers, hiring, integrating, training and retaining skilled personnel, developing new solutions, determining prices for our solutions and unforeseen expenses. If our assumptions regarding these risks and uncertainties, which we use to plan our business, are incorrect or change, or if we do not address these risks successfully, our operating and financial results and our business could be adversely affected.

We identified material weaknesses in our internal controls as of December 31, 2016 and 2017, and if we fail to establish and maintain effective internal controls, our ability to report our financial results accurately or to prevent fraud may be adversely affected, and investor confidence and the market price of the ADSs may be adversely affected.

Prior to our initial public offering in September 2016, we were a private company with limited accounting personnel and other resources with which to address our internal controls. Our independent registered public accounting firm has not conducted an audit of our internal control over financial reporting.

In the course of auditing our consolidated financial statements, we and our then independent registered public accounting firm identified two material weaknesses in our internal control over financial reporting as of December 31, 2016 and 2017. A material weakness is a deficiency, or combination of deficiencies, in internal controls, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses in our internal controls identified as of December 31, 2016 and 2017 related to: (1) our lack of sufficient financial reporting and accounting personnel with appropriate knowledge of U.S. GAAP and the SEC reporting requirements to properly address complex accounting issues and prepare and review our financial statements and related disclosures in accordance with U.S. GAAP and SEC financial reporting requirements; and (2) the lack of written policies and procedures sufficient to timely record revenues and expenses in our financial statements.

In addition, in the course of performing its services, Marcum Bernstein & Pinchuk LLP discussed with us control deficiencies associated with the following internal controls impacting its ability to complete its audit:

- Written policies and procedures for contract management.
- Verification of certain revenue items.
- Documentation supporting certain transactions.

Following the identification of these material weaknesses and the control deficiencies, we have taken measures to remedy them and to remedy other control deficiencies. The implementation of these remedial measures may not fully address these deficiencies in our internal controls. Our failure to correct these control deficiencies or our failure to discover and address any other control deficiencies could result in inaccuracies in our financial statements and could also impair our ability to comply with applicable financial reporting requirements and related regulatory filings on a timely basis. As a result, our business, financial condition, results of operations and prospects, as well as the trading price of our ADSs, may be materially adversely affected.

In addition, these control deficiencies could cause investors to lose confidence in our reported financial information, limiting our access to capital markets, adversely affecting our operating results and leading to declines in the trading price of the ADSs. Additionally, ineffective internal controls 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 or to other regulatory investigations and civil or criminal sanctions. We could also be required to restate our historical financial statements.

We have been named as a defendant in a number of shareholder class action lawsuits that could have a material adverse impact on our business, financial condition, results of operation and cash flows, and our reputation.

We have been named as a defendant in a number of shareholder class action lawsuits described in “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings,” and will have to defend against such suits, including any appeals of such suits should our initial defense be unsuccessful. We are currently unable to estimate the possible loss or possible range of loss, if any, associated with the resolution of these suits. In the event that our initial defense of these suits is unsuccessful, there can be no assurance that we will prevail in any appeal.

We cannot predict the outcome of these lawsuits. The matters that led to our Audit Committee investigation and our financial restatement have exposed us to increased risks of litigation, regulatory proceedings and government enforcement actions. We and our current and former directors and officers may, in the future, be subject to additional litigation relating to such matters. Subject to certain limitations, we are obligated to indemnify our current and former directors and officers in connection with such lawsuits and any related litigation or settlements amounts. Regardless of the outcome, these lawsuits, and any other litigation that may be brought against us or our current or former directors and officers, could be time-consuming, result in significant expense and divert the attention and resources of our management and other key employees. An unfavorable outcome in any of these matters could exceed coverage provided under potentially applicable insurance policies, which is limited. Any such unfavorable outcome could have a material effect on our business, financial condition, results of operations and cash flows. Further, we could be required to pay damages or additional penalties or have other remedies imposed against us, or our current or former directors or officers, which could harm our reputation, business, financial condition, results of operations or cash flows.

We experienced rapid growth through 2017, which has placed demands on our management and operational and financial infrastructure.

We experienced rapid growth in our customer base through 2017. We had 309 customers in 2015, 395 customers in 2016 and 505 customers in 2017. Our employee headcount increased from 733 employees as of December 31, 2015 to 1,078 employees as of December 31, 2017. The majority of our revenues in 2015, 2016 and 2017 were generated by sales to existing customers. There can be no assurance that this growth will continue, and such growth has placed, and any further growth will place, significant demands on our management and our operational and financial infrastructure. In 2018 we experienced a decline in the level of our business activity, the number of our customers, and related revenues.

To manage any future growth effectively, we must improve our operational, financial and management systems and processes by, among other things:

- attracting, training and integrating new employees, particularly for our sales and research and development teams;
- improving our operational infrastructure to support our business;
- developing our internal financial controls and disclosure controls to ensure timely and accurate reporting of our operational and financial results; and
- complying with applicable laws and regulations.

If we fail to manage our growth, or if we fail to implement improvements or maintain effective internal controls, our costs and expenses may increase more than we plan and our abilities to expand our customer base, enhance our existing solutions, develop new solutions, satisfy existing customers, attract new customers, respond to competitive pressures or otherwise execute our business plan may be diminished, and our operating results would be adversely affected.

For example, the filing of this annual report was delayed in part due to inadequate internal control over financial reporting and changes of auditor. As a result, putative class action lawsuits have been filed against us and the market price of our ADSs has declined significantly, and our ability to secure new financing has declined. Some customers have reduced their level of business with us or not renewed their contracts, and our inability to obtain financing at favorable rates has impacted our working capital and required us to cease doing business with some customers, which we expect to have an adverse effect on our financial results.

We may not be able to secure additional financing on favorable terms, or at all, to meet our future capital needs. If additional capital is not available, we may have to delay, reduce or cease operations, and we may not be able to meet our payment obligations under our indebtedness.

We do not know when or if our operations will generate sufficient cash to fund our ongoing operations. In the future, we may require additional capital to respond to business opportunities, including the need to develop new solutions or enhance our existing solutions, enhance our operating infrastructure or possible acquisitions of complementary businesses and technologies. We do not currently have any specific acquisition plans or targets. We may also require additional capital to respond to declines in demand for our products or other unforeseen circumstances. We may not be able to timely secure additional debt or equity financing on favorable terms, or at all. Any debt financing obtained by us could involve restrictive covenants relating to financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. If we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing shareholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences and privileges senior to those of holders of the ADSs.

In May 2018, we issued and sold a convertible note in the principal amount of US\$40 million, or the FutureX Convertible Note, to FutureX Innovation SPC, an affiliate of FutureX Capital Limited, or FutureX. The note is convertible in whole or in part at the holder's option into our Class B ordinary shares at an initial conversion price of US\$6.50, subject to customary adjustments in the case of share splits, share combinations, dividends, spin-offs, recapitalizations and certain other events. The note bears interest at 2.80% per annum. The principal amount of the FutureX Convertible Note and all accrued and unpaid interest will become due on November 5, 2019, or earlier in the case of an event of default or certain fundamental changes of our company. The FutureX Convertible Note significantly increased our debt obligations, and any conversion of the FutureX Convertible Note may cause significant dilution to the interest of our existing shareholders and holders of the ADSs in our company.

Our ability to make payments of the principal of or the interest on, or to refinance, our indebtedness, including the FutureX Convertible Note, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not generate cash flow from operations in the future sufficient to service our debt, and we may be required to obtain additional external financing.

If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to support our business and to respond to business opportunities and challenges could be significantly limited, our business, operating results, financial condition and prospects could be adversely affected, and we may not be able to meet our payment obligations under the FutureX Convertible Note and other indebtedness that we may incur from time to time.

Our solutions may become less useful, and our business may be harmed, if we fail to adapt and respond effectively to rapidly developing technology, evolving industry standards and practices, and changing customer needs, requirements or preferences.

The software industry is subject to rapid technological development, evolving industry standards and practices and changing customer needs, requirements and preferences. The success of our business will depend, in part, on our ability to adapt and respond effectively to these changes on a timely basis. If we are unable to develop and sell new solutions that satisfy our customers and provide enhancements and new features for our existing solutions that keep pace with rapid technological change and industry developments, our revenues and operating results could be adversely affected. If new technologies emerge that are able to deliver competitive solutions and applications at lower prices, more efficiently, more conveniently or more securely than our solutions, those technologies could adversely impact our ability to compete and adversely affect our operating results.

Our efforts to further develop our technology through increased research and development activities and investment in our platforms may not yield satisfactory results, if any.

The software industry is rapidly evolving and becoming more competitive. We will need to invest significant financial resources in research and development and our platform to keep pace with technological advances in the software industry and to effectively compete in the future. We have expended and may continue to expend significant financial resources in research and development activities and investment in our platform and commercialization of new technologies and platforms to effectively compete with other market players in the future. However, research and development activities and development in platform are inherently uncertain, and we might encounter practical difficulties in commercializing our research results and platform. Technologies that other companies may develop could prove to be more cost-effective than we develop. Therefore, our research and development efforts and investment in platform may be rendered obsolete by the technological advances of others.

To grow our business, we must achieve a high level of customer satisfaction and contract renewals, extend our relationships with existing customers over time and sell our solutions to new customers.

We have no long-term customer contracts, and most of our customer contracts may be renewed on an annual basis. In addition, our top 20 customers accounted for 55%, 55% and 44% of our total revenues during the years ended December 31, 2015, 2016 and 2017, respectively. For our business to grow and succeed we must achieve a high level of customer satisfaction so that our customers will renew their contracts with us and increase their utilization of the solutions they purchase from us. This requires that our solutions perform up to customer expectations and customers achieve the return on investment that they expect. Even if our products perform to specifications, customers may choose not to renew or to cancel early. Our success also depends on our ability to extend our relationships with existing customers, both by growing their utilization of solutions they have purchased and by selling additional products in our solution suites. Finally, our ability to achieve significant revenue growth in the future also depends on our ability to attract new customers.

Our ability to generate customer renewal, customer expansion and new customer sales depends on many factors, including customer satisfaction with the performance of our solutions, our prices, the prices of competing solutions, mergers and acquisitions affecting our customer base, the effects of global economic conditions and reductions in customer spending levels generally. Our success with customers also depends on our ability to maintain a consistently high level of customer service and technical support to retain existing customers and attract new customers. If we are unable to hire and train sufficient support resources to provide adequate and timely support to our customers, our customers' satisfaction with our solutions will be adversely affected. To the extent that our customers do not renew their contracts, terminate early or renew on less favorable terms or if our efforts to sell additional solutions to existing customers or new customers are not successful, our revenues may decline and our operating results could be adversely affected.

We depend upon sales of our marketing automation solutions to enterprise customers for a significant portion of our revenues. A portion of the revenue from our marketing automation solutions is generated based on the volume of keyword placements with a small number of premium search engines in China. The loss of any of these customers or search engines, or the reduction in their activities, could materially adversely affect our business, results of operations and financial condition.

In 2015, 2016 and 2017, revenue from our enterprise customers accounted for 90%, 86% and 80% of our net revenues, respectively. We expect that we will continue to depend upon enterprise customers for a significant portion of our revenues for the foreseeable future. A decline in sales to these customers would adversely affect our business, financial condition and operating results.

Our marketing automation solutions allow our customers to automate the bidding for and purchase of keywords on search engines. A relatively small number of premium search engines, such as Baidu, Sogou and Qihoo 360, have historically accounted for a significant portion of the keyword inventory that customers purchased through our marketing automation solutions. In 2015, 2016 and 2017, a majority of the search keyword impressions placed by customers using our marketing automation solutions were placed on Baidu websites. We expect that we will continue for the foreseeable future to depend upon a relatively small number of premium search engines for a significant portion of our customers' purchases of search keywords. Because we have no long-term commitments from these search engines, they may reduce the inventory they sell to our customers. For example, if Baidu were to change its incentive programs for keyword placements by our marketing automation customers, or to cease doing business with us for any reason, our revenues and our financial results could be materially adversely affected.

Our strategic relationships are an important part of our ability to grow our revenues, and if we do not maintain and strengthen those relationships, our results of operations and financial condition could be adversely affected.

In cooperation with the State Information Center of China, or the SIC, we have established a non-governmental entity, the Research Center for e-Government, and a joint venture company to serve the website and critical business application system needs of PRC local, municipal, provincial and central governmental agencies. Our ability to continue to sell our solutions to public sector agencies will depend on continued cooperation of the SIC and is subject to many uncertainties. For example, the SIC may change its focus and reduce or terminate its support for the e-Government initiative, and PRC public sector agencies may face funding reductions or delays, reducing sales of our solutions. In the event that any of these risks materialize, our revenues and results of operations could be materially adversely affected.

In 2016, we entered into a strategic cooperation agreement with the PRC Supreme People's Court Press, or People's Court Press, which established a framework for the application of our technology to legal information services. We have collaborated with the People's Court Press to develop new offerings such as the Chinese Legal Information Platform (or "Faxin" in Chinese), and, in cooperation with Tencent, a litigation service on WeChat's micro application platform (*Faxin Wei Su*). There can be no assurance that these new offerings will be successful.

Selling to public sector customers in the PRC involves special risks. These sales often require significant upfront time and expense without any assurance that these efforts will generate a sale. Governmental agencies may require us to comply with various regulations that are not applicable to sales to commercial enterprises, and may require us to put in place controls and procedures that may be costly to administer. Failure to comply with any such regulations could adversely affect our business, operating results and financial condition, and sales to public sector customers may prove to be unprofitable.

If we are not able to develop and introduce new solutions and enhancements of existing solutions that achieve market acceptance, our business could be adversely affected.

Our ability to attract new customers and increase revenues from existing customers depends in large part on our ability to enhance and improve our existing solutions, increase adoption and usage of our solutions and introduce new solutions. As such, the continued growth in market demand of these solutions is critical to our continued success. In addition, our ability to grow our business depends in part on our ability to increase market acceptance of our other solutions, which are unproven. The success of new solutions and enhancements of existing solutions depend on many factors, including timely completion, adequate quality testing, introduction and market acceptance. Any new solutions that we develop may not be introduced in a timely or cost-effective manner, may contain errors or defects or may not achieve the broad market acceptance necessary to generate sufficient revenues. If we are unable to successfully enhance our existing solutions to meet customer requirements, increase adoption and usage of our solutions or develop new solutions, our business and operating results will be adversely affected.

Our quarterly operating results may fluctuate significantly due to a wide range of factors, which makes our results difficult to predict.

Our revenues and operating results could vary significantly from quarter to quarter as a result of many factors that are outside of our control, including:

- fluctuation in our customer base;
- timing and size of renewal of customer agreements and sales of additional solutions to existing customers;
- timing and size of sales to new customers;
- timing of our business expenses, in particular those associated with hiring of new employees;
- introduction of solutions and enhancements by existing or new competitors in our market and changes in pricing for solutions offered by us or our competitors;
- changes in customer budgets;
- seasonal business fluctuations, as reflected in revenues that have generally been highest in the fourth quarter of a calendar year and lowest in the first quarter;
- our ability to control costs and expenses;

- the timing of satisfaction of revenue recognition criteria, particularly with regard to large transactions;
- our ability to provide software solutions on-demand, without network outages or security breaches;
- fluctuations in our effective tax rate; and
- general economic and political conditions, domestically and internationally, as well as economic conditions affecting the specific industries in which our customers operate.

Any of these factors could cause our revenues and operating results to fluctuate, so quarter-to-quarter comparisons of our revenues, operating results and cash flows may not necessarily be indicative of our future performance.

We believe that quarter-to-quarter comparisons of our revenues, operating results and cash flows may not be meaningful and should not be relied upon as an indication of future performance. If our revenues or operating results fall below the expectations of investors or securities analysts in a particular quarter or below any guidance we may provide, the price of the ADSs could decline. At such time as we announce our results for interim periods in the year ended December 31, 2018, those results may differ from previously announced interim results, as a result of factors similar to those described in note 2(a) to our consolidated financial statements included in this annual report and other trends in our business.

If the market for our cloud-based SaaS offerings develops more slowly than we expect, our growth may slow or stall, and our operating results would be adversely affected.

The market for business software that is delivered as cloud-based software-as-a-service, or SaaS, offerings is less mature than traditional on-premises software applications, and the adoption rate of SaaS business software may be slower among customers in industries with heightened data security concerns or business practices requiring highly customizable application software. Our success will depend to a substantial extent on the widespread adoption of SaaS business software in general, but we cannot be certain that the trend of adoption of SaaS solutions will continue in the future. In particular, many organizations have invested substantial personnel and financial resources in integrating legacy software into their businesses over time, and some have been reluctant or unwilling to migrate to SaaS. It is difficult to predict customer adoption rates and demand for our solutions, the future growth rate and size of the SaaS business software market or the entry of competitive applications. The expansion of the SaaS business software market depends on a number of factors, including the cost, performance and perceived value associated with SaaS, as well as the ability of SaaS providers to address data security and privacy concerns. If SaaS business software does not continue to achieve market acceptance, or there is a reduction in demand for SaaS business software caused by a lack of customer acceptance, technological challenges, weakening economic conditions, data security or privacy concerns, governmental regulation, competing technologies and solutions or decreases in information technology spending, it would result in decreased revenues and our business would be adversely affected.

Our growth prospects will be adversely affected if we do not successfully execute our mobile strategy, including developing, maintaining and enhancing the capabilities of our mobile solutions.

The use of mobile devices to access the online content that our customers offer to their users is growing rapidly and displacing personal computer-based access to those customer offerings. If we cannot provide effective functionality through our mobile solutions, as required by our customers, we may experience difficulty retaining and attracting customers.

To deliver high quality applications, it is important that our solutions integrate with a wide range of other mobile technologies, systems, networks and standards that we do not control. We may not be successful in developing solutions that operate effectively with these technologies, systems, networks or standards. We have devoted and we expect to continue to devote substantial resources to our mobile solutions, and we cannot guarantee that the capabilities of our mobile solutions will be attractive to existing or potential customers. If we do not succeed in continuing to develop, maintain and enhance the capabilities of our mobile solutions, our growth prospects in the mobile sector will be adversely affected.

We may continue to conduct acquisitions and enter into joint ventures, investments or other strategic alliances which may be unsuccessful.

We may continue to grow our operations through acquisitions, as well as joint ventures or other strategic alliances when appropriate opportunities arise. Such acquisitions, joint ventures and strategic alliances may expose us to operational, regulatory and market risks as well as risks associated with additional capital requirements and diversion of management attention. In particular, strategic alliances may expose us to unforeseen risks relating to our counterparty's business and operations or liabilities that were not discovered by us through our legal and business due diligence prior to our investment, or failure to generate anticipated revenue or other benefits from the acquisition, joint venture or alliance. Any of these risks could have a material adverse effect on our business, financial condition and results of operations.

Our future growth, if any, depends on being able to expand our direct sales force and customer service and technical support team successfully.

Our ability to increase our customer base, sell more of our solutions and achieve broader market acceptance of our solutions depends, to a significant extent, on our ability to expand our marketing and sales operations. To date, most of our growth has been attributable to the efforts of our direct sales force, which consists of a limited number of quota-carrying sales personnel and a limited number of customer service consultants. We intend to increase substantially the number of our direct sales personnel and customer service consultants. We believe there is significant competition for personnel with the skills and technical knowledge that we require, and from time to time we have experienced and expect to continue to experience significant turnover within our sales force. To the extent we experience unusual levels of turnover within our sales force or lose particularly valuable contributors, it may limit our ability to grow revenues and may harm our sales force productivity, which could lead to revenue declines. Our ability to achieve significant revenue growth will depend, in large part, on our success in recruiting, training and retaining sufficient numbers of sales personnel and customer service consultants to support our growth. New hires require significant training and may take significant time before they achieve full productivity. Newly hired personnel may not become productive as quickly as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals in the markets where we do business or plan to do business. In addition, as we continue to grow rapidly, a large percentage of our sales force will be new to our company and our solutions, which may make it more difficult to train our sales force effectively and may adversely affect our sales. If we are unable to hire and train sufficient numbers of effective sales personnel and customer service consultants or if our sales force is not successful in obtaining new customers or increasing sales to our existing customer base, our business will be adversely affected.

We have not been in compliance with the Nasdaq requirements for continued listing and as a result our ADSs may be delisted from trading on Nasdaq, which would have a material effect on us and our shareholders.

We have been delinquent in the filing of our periodic reports with the SEC, as a result of which we are not in compliance with the rules of The Nasdaq Stock Market and are subject to having our ADSs delisted from trading there. We have attended the hearing with a Nasdaq Hearings Panel, seeking suspension of delisting. On January 4, 2019, we received a letter from the Nasdaq Hearings Panel granting our request to remain listed on Nasdaq, subject to being current in our filings with the SEC on or before January 31, 2019 and certain other conditions. There can be no assurance that we will be able to comply with these conditions, in which case our ADSs may be subject to delisting by Nasdaq. If our ADSs are delisted, there can be no assurance whether or when it would again be listed for trading on Nasdaq or any other stock exchange. If our ADSs are delisted, the market price of our ADSs will likely decline and become more volatile, and our shareholders may find that their ability to trade in our ADSs will be adversely affected. Furthermore, institutions whose charters do not allow them to hold securities in unlisted companies might sell our shares, which could have a further adverse effect on the price of our ADSs.

As a result of the delayed filing of our periodic reports with the SEC, we are not currently eligible to use a registration statement on Form F-3 to register the offer and sale of securities, which may adversely affect our ability to raise future capital or complete acquisitions.

As a result of the delayed filing of our periodic reports with the SEC, we will not be eligible to register the offer and sale of our securities using a registration statement on Form F-3 until we have timely filed all periodic reports required under the Securities Exchange Act of 1934 for twelve calendar months immediately prior to filing of the Form F-3 and there can be no assurance that we will be able to timely file such reports in the future. Should we wish to register the offer and sale of our securities to the public, our transaction costs would increase and the amount of time required to complete the transaction could increase, making it more difficult to execute any such transaction successfully and potentially harming our financial condition.

Our accounts receivable have increased, and our business and results of operations may be adversely affected if we fail to collect amounts owed, or if our allowance for doubtful accounts increases.

Our business depends on our ability to collect our accounts receivable, which mainly represent amounts owed to us from our customers. Failure to collect these accounts receivable in a timely manner may adversely affect our cash flows and results of operations.

We make allowance for the portion of our accounts receivable that we consider unrecoverable. The allowance is based on an assessment of specific evidence indicating doubtful collection, historical experience, account balance aging, prevailing economic conditions and relationships with our customers, among other factors. Changes in the amount can result from many factors, including the growth or changes in our customer base, turnover in personnel, changes in payment policies or practices of customers, or changes in the financial conditions of our customers.

The amount of our accounts receivable (net of allowance for doubtful accounts) increased from RMB273.5 million as of December 31, 2015 to RMB355.9 million as of December 31, 2016 and RMB599.3 million (US\$92.1 million) as of December 31, 2017, and represented 44.2%, 29.4% and 42.7% of our total assets as of December 31, 2015, 2016 and 2017, respectively. Moreover, our allowance for doubtful accounts increased from RMB1.3 million, or 0.5% of our total accounts receivable before allowance for doubtful accounts as of December 31, 2015, to RMB21.0 million, or 5.6% of our total accounts receivable before allowance for doubtful accounts as of December 31, 2016 and RMB45.4 million (US\$7.0 million), or 7.1% of our total accounts receivable before allowance for doubtful accounts as of December 31, 2017. Increases in our allowance for doubtful accounts may adversely affect our business and results of operations.

Failure to protect our customers' proprietary data could expose us to risks of liability, loss of business and reputational damage.

Our business depends upon the proper storage, transmission and processing of our customers' proprietary data, including some personally identifiable information. Security breaches, computer malware and computer hacking attacks could expose us to risks of loss of important customer information, which could result in loss of business, reputational damage, regulatory investigations and orders, litigation, indemnity obligations, damages for contract breach, penalties for violation of applicable laws or regulations and significant costs for remediation and incentives to customers or other business partners in an effort to maintain business relationships after a breach.

Cyberattacks and other malicious internet-based activity continue to increase generally. If our security measures are perceived as weak or are compromised as a result of third-party action, employee or customer error, malfeasance, stolen or fraudulently obtained log-in credentials or otherwise, our customers may curtail or stop using our solutions, our reputation could be damaged, our business could be adversely affected, and we could incur significant liability. We may be unable to anticipate or prevent techniques used to obtain unauthorized access or to sabotage systems because they change frequently and generally are not detected until after an incident has occurred. As we increase our customer base and our brand becomes more widely known and recognized, we may become more of a target for third parties seeking to compromise our security systems or gain unauthorized access to our customers' data.

Many of our contracts do not have limitation of liability provisions for a security lapse or breach, and we cannot assure you that any contractual limitations of liability provisions would be enforceable or would otherwise protect us from any liabilities or damages with respect to any particular claim. We do not have insurance to cover such liabilities and damages, and cannot be sure that insurance coverage will be available on acceptable terms, will be available in sufficient amounts to cover one or more large claims related to a security breach, or that the insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, including expansion rates, financial condition, operating results and reputation.

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

In the course of performing data analysis for our customers, we collect and process a large quantity of personal, transactional, demographic and behavioral data. Although we do not store any personally identifiable information, we nevertheless face risks inherent in handling large volumes of data and in protecting the security of such data. In particular, we face a number of challenges relating to data about internet users who visit our customers' websites:

- protecting the data in and hosted on our system, including against attacks on our system by outside parties or fraudulent behavior or improper use 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 on our part that results in the release of user data could harm our reputation and brand and, consequently, our business, in addition to exposing us to potential legal liability.

Substantial uncertainties exist with respect to China's Cyber Security Law as well as any impact it may have on our business operations.

China's Cyber Security Law aims to establish stringent requirements for network operators in China, and applies to the construction, operation, maintenance and use of networks as well as the supervision and administration of cyber security. Under the Cyber Security Law, network operators, who are broadly defined as "owners and administrators of networks and network service providers," are required to take necessary actions to prevent security attacks and data loss, including data classification, backup and encryption. Furthermore, the Cyber Security Law specifies requirements on user information protection applicable to network operators, who are prohibited from disclosing without permission or selling individual information with limited exceptions. When network operators become aware of any information that is prohibited by laws and administrative regulations, they are required to immediately cease transmission of such information, and take measures such as deletion of relevant information to prevent its dissemination. Network operators are also required to maintain a record of these incidents when they occur and report them to the relevant authorities. Where any information that comes from outside the territory of China is prohibited by law or regulation, the authorities may request relevant institutions to take measures to stop the flow of such prohibited information. The Cyber Security Law also emphasizes the protection of key information infrastructure in important industries and fields, such as e-Government, and operators of such key information infrastructure will be subject to stricter security obligations. For example, an operator of key information infrastructures is generally required to store in the PRC personal information and important business data collected and generated during its business operations within the PRC, and to assess its network security and identify potential risks at least once a year.

We may be deemed a "network operator" and thus subject to the various requirements applicable to network operators under the Cyber Security Law. Furthermore, as a provider of e-Government solutions, we may be deemed an operator of key information infrastructure and subject to stricter security obligations. Compliance with the Cyber Security Law, as well as additional laws and regulations that PRC regulatory agencies may enact from time to time, may result in additional expenses to us, subject us to negative publicity which could harm our reputation with users and negatively affect the trading price of our ADSs. There are also uncertainties with respect to how the Cyber Security Law will be implemented in practice. PRC regulators have been increasingly focused on regulation in the areas of data security and data protection. We expect that these areas will receive greater attention and focus from regulators, as well as attract continued or greater public scrutiny and attention going forward, which could increase our compliance costs and subject us to heightened risks and challenges associated with data security and protection. For example, in response to the heightened data security requirements from our expanding e-Government customer base, in particular our customers in the judicial system, since 2016, we outsourced some of our software optimization and data security enhancement work to two China-based specialist companies in this field, and expect to continue to incur expenses for such outsourced services in the near future, until we obtain the necessary government certifications to handle such work in-house. If we are unable to manage these risks, we could become subject to penalties, including fines, suspension of business and revocation of required licenses, and our reputation and results of operations could be materially adversely affected. For the summary of the Cyber Security Law, please see "Item 4. Information on the Company—B. Business Overview—Regulations—Regulations on Network Security."

If we lose key members of our management team or are unable to attract and retain executives and employees we need to support our operations and growth, our business could be adversely affected.

Our success and future growth depend largely upon the continued services of our executive officers and other key employees in the areas of research and development, marketing, sales, services and general administrative functions. From time to time, there may be changes in our executive management team or other key employees resulting from the hiring or departure of these personnel. The loss of one or more of our executive officers, particularly our chief executive officer and chairman, Guosheng Qi, or the failure of our executive team to work with our employees and lead our company effectively, could adversely affect our business.

In addition, we must attract and retain highly qualified personnel to execute our growth plan. Competition for these personnel in Beijing, where our headquarters and the majority of our research and development personnel are located, and in other locations where we maintain offices is intense, especially for engineers experienced in designing and developing data analysis and digital intelligence solutions software and experienced sales professionals. We have from time to time experienced, and we expect to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications. Many of the companies with which we compete for experienced personnel are larger and have greater resources than we have. If we hire employees from competitors or other companies, their former employers may attempt to assert that these employees have breached their legal obligations, resulting in a diversion of our time and resources. In addition, prospective and existing employees often consider the value of the equity awards they receive in connection with their employment. If the perceived value of our equity awards declines or experiences significant volatility, it may be more difficult for us to recruit and retain key employees. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be adversely affected.

The market in which we participate is intensely competitive, and if we do not compete effectively, our operating results could be adversely affected.

The market for digital intelligence solutions is rapidly evolving, fragmented and highly competitive, with relatively low barriers to entry in some segments. Our competitors fall into three primary categories:

- diversified technology companies such as Google, IBM, Microsoft and Oracle;
- bid management companies such as adSage, CubeAd, MediaV and Adobe Media Optimizer; and
- web analytics companies such as Adobe Omniture, WebTrends, Miaozen Systems, AdMaster and Sensordata.

Each of IBM, Oracle and Salesforce.com offer “marketing cloud” solutions to customers, and we believe these companies and Adobe are our primary competitors in the market for marketing automation solutions. Still in its infancy, China’s legal technology market is fast growing, highly fragmented and intensely competitive; we face competition from startups and other companies, such as Beijing Thunisoft and Lawyee, in this market.

Some of our competitors and potential competitors are larger and have greater name recognition, longer operating histories, more established customer relationships, larger budgets, significantly greater resources and more operating flexibility to bundle competing solutions and services with other software offerings at little or no perceived incremental cost, including offering them at a lower price as part of a larger sale. As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. In addition, some competitors may offer solutions or services that address one or a limited number of functions at lower prices or with greater depth than our solutions. Our current and potential competitors may develop and market new technologies with comparable functionality to our solutions, and this could lead to us having to decrease prices in order to remain competitive.

With the introduction of new technologies and new market entrants, we expect competition to intensify. As we expand the scope of our solutions, we may face additional competition. Additionally, some existing and potential customers, particularly large enterprises, may elect to develop their own internal solutions. If one or more of our competitors were to merge or partner with another of our competitors, the change in the competitive landscape could also adversely affect our ability to compete effectively. If we are unable to maintain our current pricing due to the competitive pressures, our margins will be reduced and our operating results will be adversely affected. Pricing pressures and increased competition generally could result in reduced sales and margins, losses or the failure of our solutions to achieve or maintain more widespread market acceptance, any of which could adversely affect our business.

Interruptions or performance problems associated with our technology and infrastructure may adversely affect our business and operating results.

Our success depends in part on reliable customer access to our solutions and reliably high performance by our solutions. We may experience disruptions, outages and other performance problems due to a variety of factors, including downtime at leased data center facilities, infrastructure changes, introductions of new functionality, human or software errors, capacity constraints due to an overwhelming number of users accessing our solutions simultaneously, denial of service attacks or other security related incidents. In addition, the availability and performance of our solutions are important to our customers, but it may become more difficult over time to maintain and improve our performance levels, especially during peak usage times, and as our solutions become more complex and our usage volume increases. If our solutions are unavailable to customers when needed or our solutions do not perform up to expected levels for any reason, our business will be adversely affected. Addressing these problems will require us to address capacity constraints, continually upgrade our systems and continually develop our technology and network architecture, which will increase our costs and may adversely affect our operating results.

Software errors, failures, vulnerabilities and bugs in our solutions could diminish demand for our solutions, adversely affect our financial results and subject us to liability.

Our customers depend on our solutions for important aspects of their businesses, and any errors, defects or disruptions to our solutions or other performance problems with our solutions may damage our customers’ businesses and could hurt our brand and reputation. We provide regular updates, which may contain undetected errors when first introduced or released. In the past, we have discovered software errors, failures, vulnerabilities and bugs in our solutions after they have been released, and additional errors in our existing solutions may be detected in the future. Real or perceived errors, failures or bugs in our solutions could result in negative publicity, loss of or delay in market acceptance of our solutions, loss of competitive position, delay of payment to us, lower renewal rates or claims by customers for losses sustained by them. In such an event, we may be required, or may choose for customer relations reasons or otherwise, to expend additional resources in order to help correct the problem. As a result, we could lose future sales and our reputation and our brand could be adversely affected. In addition, we currently do not and may not in the future carry insurance sufficient to compensate us for any losses that may result from claims arising from defects or disruptions in our solutions.

Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology.

Our success depends to a significant degree on our ability to protect our proprietary technology. We will not be able to protect our intellectual property if we are unable to enforce our rights or if we do not detect unauthorized use of our intellectual property. If we fail to protect our intellectual property rights adequately, our competitors may gain access to our technology and our business could be adversely affected.

We rely on a combination of patents, trademarks, trade secrets, copyrights, service marks, contractual restrictions and other intellectual property laws and confidentiality procedures to establish and protect our proprietary rights. However, the steps we take to protect our intellectual property may be inadequate. We may be unable to obtain any patent protection for our technology subject to the pending patent applications. Any patents, trademarks or other intellectual property rights that we obtain may be challenged by others or invalidated through administrative process or litigation. We enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with other parties. There is no assurance that these agreements will be effective in controlling access to and distribution of our proprietary information.

Furthermore, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain. The laws of the PRC are not as protective of intellectual property rights as those in the United States, and legal procedures for enforcement of intellectual property rights may be inadequate in China. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property.

We may be required to spend significant resources in monitoring and protecting our intellectual property rights. We may be required to pursue litigation to protect our intellectual property rights and to protect our trade secrets. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management, and it could also result in the impairment or loss of portions of our intellectual property. Further, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Our failure to protect our proprietary technology against unauthorized copying or use, as well as any costly litigation or diversion of our management's attention and resources, could delay further sales or the implementation of our solutions, impair the functionality of our solutions, delay introductions of new solutions, result in our substituting less effective or more costly technologies into our solutions or injure our reputation.

We may be sued by third parties for alleged infringement of their proprietary rights.

There are considerable patent, copyright, trademark, trade secret and other intellectual property development activities in our industry. Our success depends in part on not infringing on the intellectual property rights of others. From time to time, our competitors or other third parties may claim that we are infringing upon their intellectual property rights, and we may be found to be infringing upon such rights. Any claims or litigation, regardless of merit, could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our solutions or require that we comply with other unfavorable terms.

Even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources spent in resolving them, could divert the resources of our management and adversely affect our business and operating results. We expect that the occurrence of infringement claims is likely to grow as the market for digital intelligence solutions grows. Accordingly, our exposure to damages resulting from infringement claims could increase and this could further divert our financial and management resources.

Our use of open source software could negatively affect our ability to sell our solutions and subject us to possible litigation.

We use open source software in our solutions and expect to continue to use open source software in the future. We may face claims from others claiming ownership of, or seeking to enforce the terms of, an open source license, including by demanding release of the open source software, derivative works or our proprietary source code that was developed using such software. These claims could also result in litigation, require us to purchase a costly license or require us to devote additional research and development resources to change our technologies, any of which would have a negative effect on our business and operating results. In addition, if the license terms for the open source software we utilize change, we may be forced to reengineer or discontinue our solutions or incur additional costs. We cannot be certain that we have incorporated open source software in our solutions in a manner that is consistent with our policies.

Natural disasters and other events beyond our control could adversely affect our business.

Natural disasters or other catastrophic events may cause damage or disruption to our operations, international commerce and the global economy, and thus could have a strong negative effect on us. Our business operations are subject to interruption by natural disasters, fire, power shortages, pandemics and other events beyond our control. We rely on our network and third-party data center infrastructure, customers' internal technology systems and our website for our development, marketing, operational support, hosted solutions and sales activities. Although we maintain crisis management and disaster response plans, in the event of a major earthquake, hurricane or other catastrophic event such as fire, power loss, telecommunications failure, cyber-attack, war or terrorism, we may be unable to continue operations without interruption and may suffer lost revenues, delays in developing important software, reputational harm, breaches of data security and loss of critical data, all of which could have an adverse effect on our results of operations.

Risks Relating to Our Corporate Structure

We conduct our businesses in China through our variable interest entity and its subsidiaries by means of contractual arrangements. If the PRC government determines that such arrangements do not comply with applicable PRC laws and regulations, our business could be materially adversely affected.

PRC laws and regulations impose restrictions on foreign ownership of companies that engage in internet, market survey and other related businesses from time to time. Specifically, foreign ownership of an internet content provider may not exceed 50% and the primary foreign investor of such provider must have a record of good performance and operating experience in managing internet content service.

We are a company registered in the Cayman Islands and Dissector (Beijing) Technology Co., Ltd., our wholly owned PRC subsidiary that we refer to as the WFOE, is considered a foreign-invested enterprise, or FIE. To comply with PRC laws and regulations, we conduct our business in China through Gridsum Holding (Beijing) Co., Ltd., or Gridsum PRC Holding, and its subsidiaries, based on a series of contractual arrangements among the WFOE, Gridsum PRC Holding and its shareholders. The shareholders of Gridsum PRC Holding are our founders, Guosheng Qi and Guofa Yu, and a holding company owned by Guosheng Qi and other key employees. As a result of these contractual arrangements, we exert control over Gridsum PRC Holding, which is our variable interest entity, or VIE, and its subsidiaries, and we consolidate their operating results in our financial statements under U.S. GAAP. The subsidiaries of Gridsum PRC Holding hold the licenses and key assets that are essential for our business operations. For a detailed description of these contractual arrangements, see "Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with Gridsum PRC Holding and its Shareholders."

There are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. If the contractual arrangements among the WFOE, Gridsum PRC Holding and the shareholders of Gridsum PRC Holding are determined to be illegal or invalid, the relevant governmental authorities would have broad discretion in dealing with such violation, including revoking our business and operating licenses, requiring us to discontinue or restrict operations, restricting our rights to collect revenues, confiscating our income, requiring us to restructure our ownership structure or operations, imposing additional conditions or requirements with which we may not be able to comply or levying fines. These actions could cause significant disruption to our business operations and may materially adversely affect our business, financial condition and operating results.

We rely on contractual arrangements with Gridsum PRC Holding and its shareholders for our operations in China, which may not be as effective in providing operational control as direct ownership.

We have relied and expect to continue to rely on contractual arrangements with Gridsum PRC Holding, in which we have no ownership interest, and the shareholders of Gridsum PRC Holding to conduct our business in China. These contractual arrangements are intended to provide us with effective control over Gridsum PRC Holding and its subsidiaries and allow us to obtain economic benefits from them, but may not be as effective as direct ownership. If Gridsum PRC Holding or its shareholders fail to perform their respective obligations under the contractual arrangements, we may incur substantial costs and expend substantial resources to enforce our rights.

All of these contractual arrangements are governed by and interpreted in accordance with PRC law, and disputes arising from these contractual arrangements will be resolved through arbitration in China. There are very few precedents and little official guidance as to how contractual arrangements in the context of a VIE should be interpreted or enforced under PRC law. There remain significant uncertainties regarding the ultimate outcome of arbitration should legal action become necessary. The relevant PRC arbitration panel may conclude that our contractual arrangements violate PRC law or are otherwise unenforceable. In addition, arbitration awards are final and can only be enforced in PRC courts through arbitration award recognition proceedings, which could cause additional expenses and delays. In the event that we are unable to enforce these contractual arrangements or we experience significant delays or other obstacles in the process of enforcing these contractual arrangements, we may not be able to exert effective control over Gridsum PRC Holding, and may lose control over the assets owned by it and its subsidiaries. As a result, we may be unable to consolidate Gridsum PRC Holding and its subsidiaries in our consolidated financial statements, our ability to conduct our business may be adversely affected, and our business operations could be severely disrupted.

The beneficial owners of Gridsum PRC Holding may have potential conflicts of interest with us, which may materially adversely affect our business.

The beneficial owners of Gridsum PRC Holding, our VIE, include Guosheng Qi, Guofa Yu and other key employees. Conflicts of interest may arise between the roles of these individuals as shareholders, directors and officers of our company on the one hand and as beneficial owners of Gridsum PRC Holding on the other. We rely on these individuals to abide by the laws of the Cayman Islands, which provide that directors and officers owe a fiduciary duty to our company to act in good faith and in the best interest of our company and not to use their positions for personal gain. We cannot assure you that when conflicts of interest arise, beneficial owners of Gridsum PRC Holding will act in the best interest of our company or that conflicts will be resolved in our favor. If we cannot resolve any conflicts of interest or disputes between us and these shareholders, we would have to rely on legal proceedings, which may be expensive, time-consuming and disruptive to our operations. There is also substantial uncertainty as to the outcome of any such legal proceedings.

Contractual arrangements with our consolidated affiliated entities may result in adverse tax consequences to us.

Under applicable PRC tax laws and regulations, arrangements and transactions among related parties may be subject to audit or scrutiny by the PRC tax authorities. We could face adverse tax consequences if the PRC tax authorities determine that the contractual arrangements among the WFOE, Gridsum PRC Holding and the shareholders of Gridsum PRC Holding are not on an arm's length basis and therefore constitute favorable transfer pricing. The PRC tax authorities could require that Gridsum PRC Holding adjust its taxable income upward. Such an adjustment could adversely affect us by increasing Gridsum PRC Holding's tax expenses without necessarily reducing the tax expenses of the WFOE, and subjecting Gridsum PRC Holding to late payment fees and other penalties for under-payment of taxes. As a result, our consolidated operating results could be adversely affected.

We may lose the ability to use assets held by Gridsum PRC Holding or its subsidiaries that are important to the operation of our business if any of them goes bankrupt or becomes subject to a dissolution or liquidation proceeding.

Gridsum PRC Holding and its subsidiaries hold assets and perform functions that are important to the operation of our business. In particular, Gridsum PRC Holding and its subsidiaries hold almost all patents for our proprietary technology, domain names, trademarks, copyrights and other intellectual property rights. In the event that Gridsum PRC Holding or any of its subsidiaries enters into bankruptcy or undergoes a voluntary or involuntary liquidation proceeding, all or part of its assets will become subject to liens or rights of third-party creditors. As a result, we may be unable to continue some or all of our business operations, which could materially adversely affect our business, financial condition and operating results.

Substantial uncertainties exist with respect to the enactment timetable and final content of a draft new PRC Foreign Investment Law and how it may impact the viability of our current corporate structure and business operations.

In January 2015, the Ministry of Commerce of the PRC, or the MOFCOM, published a discussion draft of the Foreign Investment Law for public review and comments. Among other things, the draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of "actual control" in determining whether a company should be treated as an FIE. It specifically provides that entities established in China (without direct foreign equity ownership) but "controlled" by foreign investors, through contract or trust for example, will be treated as FIEs. Once an entity falls within the definition of FIE, it may be subject to foreign investment "restrictions" or "prohibitions" set forth in a "negative list" to be separately issued by the State Council later. If an FIE proposes to conduct business in an industry subject to foreign investment "restrictions" in the "negative list," the FIE must go through a MOFCOM pre-approval process.

Under the draft Foreign Investment Law, VIEs that are controlled via contractual arrangements would be deemed as FIEs if they are ultimately "controlled" by foreign investors, and any of their operations in the industry categories included in the "negative list" without MOFCOM pre-approval may be considered illegal. Conversely, for any companies with a VIE structure engaged in a "restricted" business included in the "negative list," the VIE structure may be deemed legitimate if it is ultimately controlled by PRC nationals. The draft Foreign Investment Law is not specific on what will happen to companies with an existing VIE structure.

The internet content service and market survey businesses that we conduct through our VIE are subject to foreign investment restrictions set forth in the Special Administrative Measures (Negative List) for Foreign Investment Access (Edition 2018) issued by the MOFCOM and the National Development and Reform Commission, or the Special Administrative Measures. It is unclear whether the new "negative list" will be different from the relevant categories in the Special Administrative Measures. Substantial uncertainties exist with respect to the enactment timetable and final content of the draft Foreign Investment Law. If the enacted version of the Foreign Investment Law and the final "negative list" mandate further actions to be taken by us, such as a MOFCOM pre-approval process, there is no assurance that we can obtain such pre-approval on a timely basis, or at all.

Risks Relating to Doing Business in China

Adverse changes in economic and political policies of the PRC government could have a material adverse effect on overall economic growth in China, which could materially adversely affect our business.

Substantially all of our operations are conducted in China and substantially all of our revenues are generated in China. Accordingly, our operating results, financial condition and prospects are influenced by the economic, political and legal conditions and developments in China. China's economy differs from the economies of most developed countries in many respects, including the amount of government involvement in the economy, the general level of economic development, growth rates, foreign exchange control and allocation of resources. 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 policies and providing preferential treatment to particular industries or enterprises. Any adverse changes in the policies of the Chinese government or in PRC laws and regulations could have a material adverse effect on the overall economic growth of China, result in decreased demand for our solutions and adversely affect our business and operating results. In addition, our revenues are dependent on the number of our customers and the scope of the solutions used by our customers. Historically, during economic downturns there have been reductions in spending on digital intelligence as well as pressure for extended billing terms and other financial concessions. These conditions affect the level of information technology spending and could adversely affect our customers' ability or willingness to purchase our solutions, delay prospective customers' purchasing decisions, reduce the value or duration of their contracts or affect renewal rates, all of which could adversely affect our operating results.

Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to our shareholders and us.

The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but have limited precedential value. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters. Since then, the legislation has enhanced the protections of foreign investments in China. However, China has not developed a fully integrated legal system, and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. The interpretation and enforcement of these laws and regulations involve uncertainties. Since the PRC administrative authorities and courts have significant discretion in interpreting and implementing statutory and contractual terms, it may be difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection available to our shareholders and us.

Furthermore, the PRC legal system is partly based on government policies and internal rules, some of which are not published in a timely manner or at all, and some of which may have retroactive effects. As a result, we may not be aware of our violation of any of these policies or rules until sometime after the violation. Such uncertainties, including the uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights could materially adversely affect our business and impede our ability to continue our operations.

The PRC regulations on offshore holding companies providing loans to and making direct investments in PRC entities may delay or prevent us from making capital contributions or loans to our PRC subsidiary.

From time to time, we may need to finance and transfer funds to the WFOE by means of shareholder loans or capital contributions to fund our business operations in the PRC. According to a notice issued by the People's Bank of China regarding foreign debt on January 12, 2017, the maximum amount of foreign debt that the WFOE is allowed to borrow is two times of its net assets. Pursuant to this notice and other PRC laws and regulations regarding foreign debt, within a one-year grace period starting from January 12, 2017, the statutory limit for the total amount of foreign debt of a foreign-invested company, which is subject to its own election, is either the difference between the amount of total investment and the amount of registered capital, or two times of their respective net assets. Although the one-year grace period has expired, the abovementioned statutory limit is still applicable to foreign-invested company in practice. Any loans we make to the WFOE cannot exceed statutory limits, and must be registered with the State Administration of Foreign Exchange, or SAFE, or its local counterparts. Any capital contributions we make to the WFOE must be approved by appropriate governmental agencies. We may not be able to obtain these approvals on a timely basis, if at all. If we fail to obtain such approvals, our ability to provide capital contributions or loans to the WFOE in a timely manner may be adversely affected, which could materially adversely affect our liquidity and our ability to fund and expand our business.

Moreover, the registered capital of the WFOE settled in RMB converted from foreign currencies may only be used within the business scope registered with the applicable governmental authority and may not be used to grant loans through entrustment arrangements with a bank, repay inter-company loans or repay bank loans that have been transferred to a third party. This may significantly limit our ability to fund our business operations in China.

The failure of our PRC-resident beneficial owners to comply with PRC foreign exchange regulations may subject the WFOE to liability or penalties, limit our ability to inject capital into the WFOE or limit the WFOE's ability to distribute profits.

On July 4, 2014, SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Outbound Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37. SAFE Circular 37 requires a PRC resident to make SAFE registration prior to contributing assets or interests to an overseas special purpose vehicle, or SPV, that is directly established or indirectly controlled by such PRC resident for the purpose of conducting investment or financing. SAFE Circular 37 further requires the PRC resident to make amendment registrations in the event of any major changes or events with respect to the SPV, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger or division. In the event that a PRC-resident shareholder holding interests in a SPV fails to complete the required SAFE Circular 37 registration, the PRC subsidiary of the SPV may be prohibited from making profit distributions to its offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the SPV may be restricted in its ability to contribute additional capital into its PRC subsidiary. Moreover, failure to comply with the various SAFE registration requirements could result in liability under the PRC law for evading foreign exchange controls.

The beneficial owners of Generation Gospel Limited, Garden Enterprises Ltd. and Fairy Spirit Limited who are PRC residents have completed initial registrations under SAFE Circular 37 with the local counterparts of SAFE relating to their investments in us. However, we may not be aware of the identities of all of our beneficial owners who are PRC residents. We do not have control over our beneficial owners and cannot assure you that all of our PRC-resident beneficial owners have complied and will comply with SAFE Circular 37 and subsequent implementation rules. The failure of our existing or future beneficial owners who are PRC residents to comply with the registration requirements and procedures set forth in SAFE Circular 37 and subsequent implementation rules may subject the WFOE to fines and legal sanctions, limit our ability to contribute additional capital to the WFOE and limit the WFOE's ability to distribute dividends or make other distributions to our company, which could adversely affect our business and prospects.

We and our Hong Kong subsidiary may be classified as a "PRC resident enterprise" for PRC enterprise income tax purposes, which would likely result in unfavorable tax consequences to us and our non-PRC shareholders.

The PRC Enterprise Income Tax Law, or the EIT Law, provides that an enterprise established outside China whose "de facto management body" is located in China is considered a "PRC resident enterprise" and will generally be subject to the uniform 25% PRC enterprise income tax on its global income. Under the implementation rules of the EIT Law, "de facto management body" is defined as the organizational body which effectively manages and controls the production and business operation, personnel, accounting, properties and other aspects of operations of an enterprise.

An overseas incorporated enterprise controlled by PRC enterprises or PRC enterprise groups is considered a PRC resident enterprise if all of the following conditions are met: (i) the senior management and core management departments in charge of daily operations are located mainly in the PRC; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders' meetings are located or kept in the PRC; and (iv) at least half of the enterprise's directors or senior management with voting rights habitually reside in the PRC. Although these standards only apply to offshore enterprises that are controlled by PRC enterprises or PRC enterprise groups, such standards may reflect the general view of the SAT in determining the tax residence of overseas incorporated enterprises.

If the PRC tax authorities determine that our company or any of our non-PRC subsidiaries is a PRC resident enterprise for PRC enterprise income tax purposes, we or any such non-PRC subsidiary could be subject to PRC enterprise income tax at a rate of 25% on our or its global income, which could materially reduce our net income. In addition, we will also be subject to PRC enterprise income tax reporting obligations. Furthermore, if the PRC tax authorities determine that our company is a PRC resident enterprise, dividends paid by us and gains realized on the sale or other disposition of the ADSs or our ordinary shares may be subject to PRC tax, at a rate of 10% if the shareholder is a non-PRC resident enterprise or 20% in the case of a non-PRC individual shareholder (in each case, subject to the provisions of any applicable tax treaty). Such tax may materially reduce the value of the ADSs.

Any limitation on the ability of the WFOE to make distributions to us, or the tax implications thereof, could have a material adverse effect on our business or financial condition.

We are a holding company, and we rely principally on dividends and other distributions from the WFOE for our cash needs, including the funds necessary to pay dividends to our shareholders or to service any debt we may incur. Current PRC regulations permit the WFOE to pay dividends only out of its accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, the WFOE is required to set aside at least 10% of its after tax profits each year, if any, to fund statutory reserve funds until the aggregate amount of such reserve funds reaches 50% of its registered capital. Apart from these reserves, the WFOE may allocate a discretionary portion of its after-tax profits to staff welfare and bonus funds at its discretion. These reserves and funds are not distributable as cash dividends. We cannot assure you that the WFOE will generate sufficient earnings and cash flows in the near future to pay dividends or otherwise distribute sufficient funds to enable us to meet our obligations, pay interest and expenses or declare dividends.

Since 2016, PRC governmental authorities began imposing more stringent restrictions on outbound capital flows, including through regulations that tightened the authentication and compliance verification of cross-border transactions and cross-border capital flow, such as by requiring banks to verify board resolutions, tax filing forms and audited financial statements before wiring foreign invested company's foreign exchange dividend distribution of over US\$50,000. See "Item 4. Information on the Company—B. Business Overview—Regulations—Regulations on Foreign Exchange." Any restrictions on outbound capital flows may limit our ability to utilize revenue generated in the PRC to pay dividends in foreign currencies to our shareholders, including holders of our ADSs, or to fund our business activities or service any debt we may incur outside of the PRC.

Distributions made by a PRC company to its offshore parent are generally subject to a 10% withholding tax under the EIT Law. Pursuant to the EIT Law and the Arrangement Between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion With Respect to Taxes on Income, the withholding tax rate on dividends paid by the WFOE to Gridsum HK would generally be reduced to 5%, provided that Gridsum HK is the beneficial owner of the income sourced from China. However, on February 3, 2018, SAT promulgated the Announcement Regarding the Beneficial Owners in Tax Treaties, which provides that a comprehensive analysis should be carried out in the determination of a beneficial owner, and certain factors would put Gridsum HK in an unfavorable position in such determination, including but not limited to its non-engagement in substantive business activities. If Gridsum HK is not regarded as a beneficial owner, it will not be entitled to the 5% withholding tax rate with respect to any dividends or distributions made by the WFOE, which would be subject to 10% withholding tax and would reduce our ability to make distributions or dividends to holders of ADSs.

Governmental control of currency conversion may limit our ability to pay dividends and other obligations and affect the value of your investment.

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and the remittance of currency out of China. We receive substantially all of our revenues in RMB, and substantially all of our cash inflows and outflows are denominated in RMB. We primarily rely on dividend payments from the WFOE 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 SAFE approval as long as routine procedural requirements are fulfilled. Therefore, the WFOE is allowed to pay dividends in foreign currency to us without pre-approval from SAFE. However, approval from or registration with competent government authorities is required where the RMB is to be converted into foreign currency and remitted out of China to pay capital account items such as the repayment of loans denominated in foreign currencies. Also, the PRC government may at its discretion restrict access to foreign currencies for current account items in the future. If the foreign exchange control system in China 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.

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

Our employees and directors who are PRC residents and who participate in our equity incentive plans are required to register with SAFE and complete other procedures through a domestic qualified agent, and to retain an overseas entrusted institution to handle matters in connection with their exercise or sale of share options. In addition, the PRC agent is required to make amendment registrations with respect to the share incentive plan if there is any material change to the share incentive plan, the PRC agent or the overseas entrusted institution or other material changes. Failure to comply with such requirements will subject us or our PRC resident option holders to fines and other legal or administrative sanctions. To date, we have completed the SAFE foreign exchange registration with respect to our share incentive plans, but there can be no assurance that we will be able to continue to do so in the future, which would make it more difficult for us to incentivize our employees.

Furthermore, our employees working in the PRC who exercise share options, or whose restricted shares or restricted share units, or RSUs, vest, will be subject to PRC individual income tax. Our PRC subsidiary and controlled affiliated entities are required to file documents related to employee share options, restricted shares or RSUs with the relevant tax authorities and to withhold individual income taxes of those employees related to their share options, restricted shares or RSUs. If the employees fail to pay, and our PRC subsidiary and controlled affiliated entities fail to withhold, such PRC individual income taxes, our PRC subsidiary and controlled affiliated entities may face sanctions imposed by the PRC tax authorities.

Fluctuation in the value of the RMB may have a material adverse effect on the value of your investment.

The value of the RMB 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. In 2017, the value of the RMB appreciated against the U.S. Dollar by approximately 6.7%. From the end of 2017 through the end of November 2018, the value of the RMB depreciated by approximately 6.5% against the U.S. Dollar. There is no guarantee that the value of the RMB against the U.S. Dollar will not fluctuate significantly in the future.

Substantially all of our revenues and costs are denominated in RMB, and substantially all of our financial assets are also denominated in RMB. Any significant depreciation of the RMB may materially adversely affect the value of, and any dividends payable on, our ADSs in U.S. Dollars. To the extent that we need to convert U.S. Dollars into RMB, appreciation of the RMB against the U.S. Dollar would reduce the RMB amount we would receive from the conversion. Conversely, if we decide to convert RMB into U.S. Dollars, appreciation of the U.S. Dollar against the RMB would reduce the U.S. Dollar amount available to us.

Any change in the preferential tax treatment we enjoy in the PRC may materially adversely impact our net income.

Some of our consolidated affiliated entities have been granted the status of "high and new technology enterprise" by PRC government agencies. As a result, the income tax rate of these entities is reduced to a preferential rate of 15% for three-year terms that expire starting in 2019. The government agencies may decide not to renew the "high and new technology enterprise" status of these entities after the term expires, and therefore we cannot assure you that the preferential tax treatment will continue. The discontinuation of such preferential tax treatment could increase our tax expenses and adversely affect our net income.

We may have to register our encryption software with Chinese regulatory authorities, and if they request that we change our encryption software, our business operations could be disrupted as we develop or license replacement software.

Foreign and domestic companies operating in China are required to seek state approval for the commercial encryption products they use. Companies operating in China are allowed to use only commercial cipher code products approved by this authority and are prohibited from using self-developed or imported cipher code products without approval. In addition, all cipher code products shall be produced by those producers appointed and approved by this authority. Because applicable regulations do not specify what constitutes a cipher code product, we are unsure as to whether or how they apply to us and the encryption software we utilize. We may be required to register or apply for permits for our current or future encryption software. If PRC authorities request that we register our encryption software or change our current encryption software to an approved cipher code product produced by an appointed producer, it could disrupt our business operations.

Risks Relating to Our Ordinary Shares and ADSs

Uncertainty concerning the proposed going private transaction may adversely affect our business and the market price of the ADSs.

Our board of directors received a preliminary non-binding proposal letter dated May 8, 2018 from FutureX to acquire all of our outstanding ordinary shares not already owned by it in a going private transaction for US\$8.70 in cash per ADS. On May 11, 2018, our board of directors formed a special committee consisting of three independent directors, Messrs. Peter Andrew Schloss, Xudong Gao and Thomas A. Melcher, to evaluate the proposal and any other alternative transactions. Mr. Schloss has been appointed as chairman of the special committee. According to FutureX's proposal letter, it intends to fund the going private transaction primarily with equity capital from itself and any additional members it accepts into a consortium of buyers, and possibly some debt capital. As FutureX proceeds with its due diligence evaluation, it may consider inviting certain of our existing shareholders to participate in the transaction.

In order for the proposed going private transaction to be consummated, we must first enter into a definitive merger agreement that is approved by our board of directors and later by our shareholders. If the going private transaction is consummated, it would cause us to be delisted from The Nasdaq Stock Market and become a private company, in which event our shareholders and holders of the ADSs, other than those in the approved buyer group, would not be able to participate in our future growth. If the proposed going private transaction is not approved by either our board of directors or our shareholders, or is for any other reason not consummated, it could adversely affect the market price of our ADSs. There can be no assurance that the proposed going private transaction will continue to be pursued, approved or consummated.

Whether consummated or not, the proposed going private transaction risks diverting management focus, employee attention and other resources from strategic opportunities and from operational matters. Also, as the going private transaction develops, certain events such as the execution of any merger agreement, completion of the merger or an amendment to or termination of any merger agreement, may increase the volatility of the trading price of the ADSs. Furthermore, we could be subject to potential lawsuits in connection with the proposed going private transaction.

Provisions of the FutureX Convertible Note could discourage an acquisition of us by a third party.

Provisions of the FutureX Convertible Note could make it more difficult, or more expensive, for us to be acquired by a third party. For example, holders of the FutureX Convertible Note have the right to require us to repurchase for cash the entire FutureX Convertible Note at a repurchase price equal to 100% of the principal amount plus accrued and unpaid interest upon the occurrence of certain fundamental changes of our company, including an acquisition. Such “fundamental changes” include, among other things, (1) any person or group gaining control of our company, (2) our company merging with or into another company or disposing of substantially all of our assets, (3) any recapitalization, reclassification or change of our ordinary shares or the ADSs as a result of which these securities would be converted into, or exchanged for, stock, other securities, property or assets, or (4) adoption of a plan to dissolve or liquidate our company or any of our significant subsidiaries.

The market price for our ADSs is volatile, which could result in substantial losses to our shareholders.

The trading price of our ADSs has been and is likely to continue to be volatile, fluctuating widely due to factors beyond our control. This may happen because of broad market and industry factors, like the performance and fluctuation in the market prices or the underperformance or deteriorating financial results of other companies with business operations located mainly in China that have listed their securities in the United States. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in the trading prices of their securities. The trading performances of other Chinese companies’ securities after their initial public offerings may affect the attitudes of investors toward Chinese companies listed in the United States, which 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. In addition, 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 adverse effect on the market price of our ADSs.

If securities or industry analysts do not publish research or reports about our business or if they publish inaccurate or unfavorable research about our business, the market price and trading volume of our ADSs could decline.

The trading market for our ADSs will depend in part on the research and reports that securities or industry analysts publish about us or our business. If research analysts do not establish and maintain adequate research coverage or if one or more of the analysts who covers us downgrades our ADSs or publishes inaccurate or unfavorable research about our business, the market price for our ADSs would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for our ADSs to decline, which could result in substantial losses for our investors.

Substantial future sales of our ADSs in the public market, or the perception that these sales could occur, could cause the price of our ADSs to decline.

Substantial future sales or re-sales of our ADSs in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. As of December 31, 2018, we had 4,543,461 Class A ordinary shares and 26,289,929 Class B ordinary shares outstanding, including 15,769,245 ADSs that are freely transferable without restriction. The remaining ordinary shares outstanding are available for re-sale subject to volume and other restrictions as applicable under Rule 144 under the Securities Act.

Certain holders of our Class B ordinary shares have the right to cause us to register under the Securities Act the re-sale of their shares. Additionally, in connection with our offer and sale of the FutureX Convertible Note, we entered into a registration rights agreement, under which we are required to register under the Securities Act the offer and sale of the Class B ordinary shares issued upon conversion of the FutureX Convertible Note no later than August 2019, and granted customary piggyback registration rights. Registration of these ordinary shares under the Securities Act would result in ADSs representing these shares being freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration, and sales of those ADSs could cause the price of our ADSs to decline.

Our dual-class ordinary share structure limits the ability of holders of our Class B ordinary shares and ADSs to influence corporate matters and could discourage others from pursuing change of control transactions that such holders may view as beneficial.

Our ordinary shares are divided into Class A and Class B ordinary shares. Holders of Class A ordinary shares are entitled to ten votes per share, and holders of Class B ordinary shares are entitled to one vote per share. Generation Gospel Limited, which is owned and controlled by our chief executive officer, held 4,543,461 Class A ordinary shares as of December 31, 2018. Class A ordinary shares are convertible at any time by the holder into Class B ordinary shares on a one-for-one basis, whereas Class B ordinary shares are not convertible into Class A ordinary shares under any circumstances.

Due to the disparate voting powers attached to these two classes of shares, our founders, officers and directors beneficially held an aggregate of 75.1% of the voting power of our outstanding ordinary shares as of December 31, 2018, and have considerable influence over matters requiring shareholder approval, including election of directors and significant corporate transactions, such as a merger or sale of our company or our assets. This concentrated control limits the ability of holders of our Class B ordinary shares and ADSs to influence corporate matters and could discourage others from pursuing any potential merger, takeover or other change of control transactions that such holders may view as beneficial.

Because we do not expect to pay dividends in the foreseeable future, investors are dependent on price appreciation of our ADSs for return on their 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, investors should not rely on an investment in our ADSs as a source for any future dividend income. Our Board of Directors has complete discretion as to whether to distribute dividends. Even if our Board decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future operating results 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. Accordingly, the return on investment in our ADSs, if any, will likely depend entirely upon any future price appreciation of the ADSs. There is no guarantee that our ADSs will appreciate in value or even maintain the price at which the holders of our ADSs purchased the ADSs. The holders of our ADSs may not realize a return on their investment in our ADSs and the holders of our ADSs may even lose their entire investment in the ADSs.

Holders of our ADSs may not receive dividends or other distributions on our ADSs and the holders of our ADSs may not receive any value for them, if it is illegal or impractical to make them available to the holders of our ADSs.

The depository of our ADSs has agreed to pay to holders of our ADSs the cash dividends or other distributions it or the custodian receives on Class B ordinary shares or other deposited securities underlying the ADSs, after deducting its fees and expenses. The holders of our ADSs will receive these distributions in proportion to the number of Class B ordinary shares our ADSs represent. However, the depository is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act but that are not properly registered or distributed under an applicable exemption from registration. The depository may also determine that it is not feasible to distribute certain property through the mail. Additionally, the value of certain distributions may be less than the cost of mailing them. In these cases, the depository may determine not to distribute such property. We have no obligation to register under U.S. securities laws any ADSs, ordinary shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to holders of ADSs. This means that the holders of our ADSs may not receive distributions we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to the holders of our ADSs. These restrictions may cause a material decline in the value of the ADSs.

Holders of our ADSs may experience dilution of their 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 our 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 our 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 our ADSs may be unable to participate in our rights offerings and may experience dilution of their holdings as a result.

Holders of our ADSs may be subject to limitations on transfer of the ADSs.

Our 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 ADS holders on its books for a specified period. The depository may also close its books in emergencies, on weekends and on public holidays. The depository may refuse to deliver, transfer or register transfers of our ADSs generally when our share register or the books of the depository are closed, 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.

Holders of our ADSs may have fewer rights than holders of our ordinary shares and must act through the depositary to exercise those rights.

Holders of our ADSs do not have the same rights of our shareholders and may only exercise the voting rights with respect to the underlying Class B ordinary shares in accordance with the provisions of the deposit agreement. Under our current memorandum and articles of association, the minimum notice period required to convene a general meeting is 14 days. When a general meeting is convened, the holders of our ADSs may not receive sufficient notice of a shareholders' meeting to permit them to withdraw their Class B ordinary shares to allow them to cast their vote with respect to any specific matter. In addition, the depositary and its agents may not be able to send voting instructions to them or carry out their voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to them in a timely manner, but we cannot assure the holders of our ADSs that they will receive the voting materials in time to ensure that they can instruct the depositary to vote the ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, the holders of our ADSs may not be able to exercise their right to vote and they may lack recourse if our ADSs are not voted as they requested. In addition, in their capacity as an ADS holder, they will not be able to call a shareholders' meeting.

The depositary for our ADSs will give us a discretionary proxy to vote the Class B ordinary shares underlying their ADSs if the holders of our ADSs do not vote at shareholders' meetings, except in limited circumstances, which could adversely affect their interests.

Under the deposit agreement for the ADSs, if the holders of our ADSs do not vote, the depositary will give us a discretionary proxy to vote the Class B ordinary shares underlying their ADSs at shareholders' meetings unless:

- we have failed to timely provide the depositary with notice of meeting and related voting materials;
- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting;
- a matter to be voted on at the meeting would have a material adverse impact on shareholders; or
- the voting at the meeting is to be made on a show of hands.

The effect of this discretionary proxy is that if the holders of our ADSs do not vote at shareholders' meetings, they cannot prevent the Class B ordinary shares underlying their ADSs from being voted, except under the circumstances described above. This may make it more difficult for shareholders to influence the management of our company. Holders of our ordinary shares are not subject to this discretionary proxy.

Holders of our ADSs may face difficulties in protecting their interests, and their ability to protect their rights through the U.S. federal courts may be limited because we are incorporated under Cayman Islands law, we conduct substantially all of our operations in China and substantially all of our directors and officers reside outside the United States.

We are incorporated in the Cayman Islands and conduct substantially all of our operations in China through our PRC subsidiary and consolidated affiliated entities. Substantially all of our directors and officers reside outside the United States and a substantial portion of their assets are located outside of the United States. As a result, it may be difficult or impossible for the holders of our ADSs to bring an action against us or against these individuals in the United States in the event that they believe that their rights have been infringed under the U.S. securities laws or otherwise. Even if they are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render them unable to enforce a judgment against our assets or the assets of our directors and officers.

There are uncertainties as to whether Cayman Islands courts would:

- recognize or enforce against us judgments of courts of the United States based on certain civil liability provisions of U.S. securities laws; and
- impose liabilities against us, in original actions brought in the Cayman Islands, based on certain civil liability provisions of U.S. securities laws that are penal in nature.

There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will in certain circumstances recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits.

Our corporate affairs are governed by our memorandum and articles of association, as amended and restated from time to time, and by the Companies Law (2018 Revision) and common law of the Cayman Islands. The rights of shareholders to take legal action against us and our 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 English common law, which provides persuasive, but not binding, authority in 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 precedents in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States and provides significantly less protection to investors. In addition, shareholders in Cayman Islands companies may not have standing to initiate a shareholder derivative action in U.S. federal courts.

As a result, our public shareholders may have more difficulty in protecting their interests through actions against us, our management, our directors or our major shareholders than would shareholders of a corporation incorporated in the United States.

We may be classified as a passive foreign investment company, or PFIC, under U.S. federal income tax law, which could result in material adverse U.S. federal income tax consequences to U.S. holders of the ADSs.

Depending upon the value of our assets, which is generally determined based on the market value of the ADSs, and the nature of our assets and income over time, we could be classified as a PFIC for U.S. federal income tax purposes. Based on our current income and assets and the value of the ADSs, we do not believe we were a PFIC for the 2017 taxable year or for prior years, and we do not expect to be classified as a PFIC for the current taxable year or in the foreseeable future. While we do not anticipate becoming a PFIC for the current taxable year, fluctuations in the market price of our ADSs or changes in the composition of our income or assets may cause us to become a PFIC for the current or any subsequent taxable year.

We will be classified as a PFIC for any taxable year if either (i) 75% or more of our gross income for the taxable year is passive income or (ii) 50% or more of the value of our assets (determined on the basis of a quarterly average) is attributable to assets that produce or are held for the production of passive income. Although the law in this regard is unclear, we intend to treat Gridsum PRC Holding as being owned by us for U.S. federal income tax purposes, not only because we exercise effective control over the operation of this entity but also because we are entitled to substantially all of its economic benefits and burdens, and, as a result, we consolidate its operating results in our consolidated U.S. GAAP financial statements. If it were determined, however, that we are not the owner of Gridsum PRC Holding for U.S. federal income tax purposes, the PFIC tests would apply differently and we could be treated as a PFIC for our current taxable year and any subsequent taxable year. Because of the uncertainties in the application of the relevant rules in respect of our VIE structure and because PFIC status is a factual determination made annually after the close of each taxable year on the basis of the composition of our income and the value of our active versus passive assets, there can be no assurance that we will not be a PFIC for the current taxable year or any future taxable year.

If we were to be or become classified as a PFIC, a U.S. holder of our ADSs or Class B ordinary shares generally would be taxed at ordinary income rates on any sale of our ADSs or Class B ordinary shares and on any dividends treated as an “excess distribution” under the U.S. federal income tax rules. An interest charge also generally would apply if U.S. tax were deferred during the U.S. holder’s holding period. Further, if we were a PFIC for any year during which a U.S. holder held our 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 our ADSs or ordinary shares. You are urged to consult your tax advisor concerning the U.S. federal income tax consequences of acquiring, holding and disposing of ADSs or ordinary shares if we are or become classified as a PFIC. For more information see “Item 10. Additional Information—E. Taxation—Material United States Federal Income Tax Considerations—Passive Foreign Investment Company Rules.”

Changes in our United States federal income tax classification, or that of our subsidiaries, could result in adverse tax consequences to our 10% or greater U.S. shareholders.

The U.S. tax reform act of December 2017 (the “2017 Act”) may have changed the consequences to U.S. shareholders that own, or are considered to own as a result of certain stock ownership attribution rules, 10% or more of the voting power or value of the stock of a non-U.S. corporation (a “10% U.S. Shareholder”) under the U.S. Federal income tax law applicable to owners of U.S. controlled foreign corporations (“CFCs”). Prior to the 2017 Act, we did not believe we, or any of our non-U.S. subsidiaries, were CFCs, based on our 10% U.S. Shareholders (if any) together owning less than 50% of our ordinary shares. The 2017 Act repealed Internal Revenue Code Section 958(b)(4), which, unless clarified in future regulations or other guidance, may result in our classification (or the classification of certain of our non-U.S. subsidiaries) as CFCs. This classification could cause significant and adverse U.S. tax consequences for our existing 10% U.S. Shareholders (if any) or any person who becomes a 10% U.S. Shareholder. Therefore, 10% U.S. Shareholders (if any) and persons considering becoming 10% U.S. Shareholders are strongly urged to consult with their tax advisors regarding the 2017 Act revisions to the U.S. Federal income tax law applicable to owners of CFCs.

We are a foreign private issuer, and as such we are exempt from certain disclosures that apply to U.S. domestic public companies.

Because we qualify as 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 requiring filing quarterly reports on Form 10-Q and current reports on Form 8-K with the SEC;
- Exchange Act provisions regulating the solicitation of proxies, consents or authorizations;
- Exchange Act provisions 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
- selective disclosure rules under Regulation FD governing issuer disclosure of material nonpublic information.

As a result, our shareholders may not be afforded the same protections or information that would be made available to them were they investing in a U.S. domestic issuer.

As a company incorporated in the Cayman Islands, we are permitted to adopt home country practices in relation to 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 Nasdaq corporate governance listing standards.

As a Cayman Islands company listed on The Nasdaq Stock Market, we are subject to the Nasdaq corporate governance listing standards. Nasdaq rules permit us to follow the corporate governance practices of our home country, the Cayman Islands, which differ significantly from the Nasdaq corporate governance listing standards. For example, neither the Companies Law of the Cayman Islands nor our memorandum and articles of association requires a majority of our directors to be independent, and we could include non-independent directors as members of our nominating and corporate governance committee. In addition, neither the Companies Law of the Cayman Islands nor our memorandum and articles of association requires us to solicit proxy and hold meetings of our shareholders every year. Furthermore, our independent directors would not necessarily hold regularly scheduled meetings at which only independent directors are present. If we choose to follow home country practice, our shareholders may be afforded less protection than they otherwise would receive under the Nasdaq corporate governance listing standards applicable to U.S. domestic issuers. As of the date of this annual report, we are relying on the home country practices stated above. As a result, we may have less independent oversight over the management of our company.

Any requirement to obtain prior approval for our initial public offering could have a material adverse effect on our business, operating results, reputation and trading price of the ADSs.

PRC regulatory agencies have promulgated Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, which became effective in September 2006. The M&A Rules purport to require offshore special purpose vehicles, or SPVs, that are formed for overseas listing purposes through acquisition of PRC domestic companies and controlled by PRC companies or individuals, to obtain regulatory approval prior to publicly listing their securities on an overseas stock exchange. While the application of the M&A Rules remains unclear, we believe that no prior approval was required for our initial public offering. However, uncertainties exist as to how the M&A Rules will be interpreted and implemented. If PRC regulatory agencies determine that we needed to obtain regulatory approval for our initial public offering, we may face sanctions by the regulatory agencies, including fines and penalties or limits on our operations in the PRC, delays or restrictions on the repatriation of the proceeds from our initial public offering into the PRC or other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, any of which would harm the trading price of the ADSs.

We are an “emerging growth company” and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our ADSs less attractive to investors.

We are an “emerging growth company,” as defined in the federal securities laws, and we may take advantage of certain exemptions from various reporting requirements that are applicable to public companies that are not “emerging growth companies” including, but not limited to, not being required to provide auditor attestation of our internal control over financial reporting, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our ADSs less attractive because we may rely on these exemptions. If some investors find our ADSs less attractive as a result, there may be a less active trading market for our ADSs and our stock price may be more volatile.

We incur significant costs and devote substantial management time in order to operate as a Nasdaq-listed public company.

As a public company, we incur significant legal, accounting and other expenses that are not incurred by a private company. For example, we are subject to reporting requirements of the Exchange Act, and to other securities laws, rules and regulations implemented by the SEC and The Nasdaq Stock Market, are required to establish and maintain effective internal controls, disclosure controls and corporate governance practices. Compliance with these requirements increases our legal and financial compliance costs and makes some activities more time consuming and costly. In addition, these public company requirements may divert management attention from operational and other business matters. We need to prepare and maintain an effective contract tracking database, hire additional accounting and finance staff with sufficient U.S. GAAP accounting and SEC reporting experience. As a public company, it may be difficult for us to attract and retain qualified people to serve on our Board of Directors, or as executive officers.

Shareholders of a public company often bring securities class action lawsuits against the company following periods of instability in the market price of that company’s securities. We have been, and may continue to be, involved in class action lawsuits, which could divert a significant amount of our management’s attention and other resources from our business and operations, and harm our results of operations and require us to incur significant expenses to defend the suits. Any such class action lawsuit could harm our reputation and restrict our ability to raise capital in the future, and, if successfully made against us, could have a material adverse effect on our business, financial condition and results of operations. See “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings.”

PART II

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer and our co-chief financial officers, we carried out an evaluation of the effectiveness of our disclosure controls and procedures, which is defined in Rule 13a-15(e) of the Exchange Act, as of December 31, 2017.

Based upon that evaluation, our management has concluded that, due to the outstanding material weaknesses and other control deficiencies described below, as of December 31, 2017, our disclosure controls and procedures were not effective in ensuring that the information required to be disclosed by us in the reports that we file and furnish under the Exchange Act was 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 was accumulated and communicated to our management, including our chief executive officer and co-chief financial officers, 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, as such term is defined in Exchange Act Rule 13a-15(f), for our company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with generally accepted accounting principles, and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with U.S. GAAP and that a company's receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our consolidated financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statements preparation and presentation and may not prevent or detect misstatements. 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 as promulgated by the Securities and Exchange Commission, our management including our chief executive officer and co-chief financial officers assessed the effectiveness of internal control over financial reporting as of December 31, 2017 using the criteria set forth in the report "Internal Control—Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission (known as COSO).

Based on this evaluation, our management identified two material weaknesses and certain other control deficiencies in our internal controls, as defined in the standards established by U.S. Public Company Accounting Oversight Board, in our internal control over financial reporting as of December 31, 2017. A material weakness is a deficiency, or combination of deficiencies, in internal controls, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

The two material weaknesses relate to: (1) our lack of sufficient financial reporting and accounting personnel with appropriate knowledge of U.S. GAAP and the SEC reporting requirements to properly address complex accounting issues and prepare and review our financial statements and related disclosures in accordance with U.S. GAAP and SEC financial reporting requirements; and (2) the lack of written policies and procedures sufficient to timely record revenues and expenses in our financial statements.

In addition, in the course of performing its services, Marcum Bernstein & Pinchuk LLP discussed with us control deficiencies associated with the following internal controls impacting its ability to complete its audit:

- Written policies and procedures for contract management.
- Verification of certain revenue items.
- Documentation supporting certain transactions.

Based on this assessment, our management has concluded that our internal control over financial reporting was not effective as of December 31, 2017. These material weaknesses resulted in the restatement of our financial statements as of and for the years ended December 31, 2015 and 2016. For more information about the restatement and the related adjustments, see Note 2(a) “Restatement of previously issued financial statements” to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

Changes in Internal Control over Financial Reporting

Since January 1, 2017, we have taken initiatives to improve our internal control over financial reporting to address the material weaknesses and certain other control deficiencies that have been identified, including:

- In 2017 we hired a new Co-Chief Financial Officer with responsibility for public disclosures, investor relations, and acquisitions;
- In 2017 we replaced our prior U.S. GAAP reporting team with a new U.S. GAAP reporting team; in 2018 we hired additional employees with U.S. GAAP expertise and experience with major international accounting firms;
- In 2017 we engaged an external consulting firm to assist us to assess Section 404 of the Sarbanes-Oxley Act of 2002 compliance readiness and improve overall internal controls and this external consulting firm also provided a Section 404 of the Sarbanes-Oxley Act of 2002 training session to our senior employees;
- In 2017 we implemented new software modules for office automation, including contract management, procurement management and customer account management, and a vendor management and expense approval system requiring multi-level authorization and pre-approval of vendors (including audited financial statements if payments exceed RMB200,000);
- In 2018 we engaged the founder and chairman of one of China’s largest audit and consulting firms as our advisor;
- In 2018 we distributed internal policies and handbooks on topics such as contract management, vendor management, reimbursement management and risk control management to our employees, and conducted training seminars to ensure effective implementation;
- In 2018 we engaged an independent external consulting firm with extensive U.S. GAAP reporting experience to assist our U.S. GAAP reporting team in preparation of this annual report;
- In 2018 we conducted a comprehensive “as is” and gap analysis of our IT systems and approved procurement of a customized ERP system. A committee consisting of all our senior executives was organized to facilitate the assessment and implement any necessary changes; and
- In 2018 we engaged an independent third-party consultant to provide accounting and financial training to our senior employees.

Except for the matters described above to improve our internal control over financial reporting, there were no changes in our internal control 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 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

On June 28, 2018, we dismissed PricewaterhouseCoopers Zhong Tian LLP, or PwC China, and engaged Marcum Bernstein & Pinchuk LLP, or MarcumBP, as our independent registered public accounting firm in connection with the audit of our consolidated financial statements for the years ended December 31, 2015, 2016 and 2017.

The decision to authorize the dismissal of PwC China and the engagement of MarcumBP was recommended by our Audit Committee and approved by our Board of Directors.

Prior to the dismissal, PwC China informed us of certain issues it had identified in conducting its audit of our financial statements for the year ended December 31, 2017. Those issues related to certain revenue recognition, cash flow, cost, expense items, and their underlying documentation. PwC China also advised us that certain of these issues would materially impact our financial statements for the year ended December 31, 2016, and accordingly, PwC China’s audit report for our financial statements for the year ended December 31, 2016 should no longer be relied upon. PwC China also advised that the issues identified raised questions related to its ability to rely upon the representations of management. PwC China has not delivered an audit report with respect to our financial statements for the year ended December 31, 2017.

In response to the issues raised by PwC China, our Audit Committee commenced an investigation of such issues with assistance from external legal and accounting advisors. In October 2018, the Audit Committee concluded this investigation. We authorized PwC China to respond fully to inquiries from MarcumBP.

PwC China's report on our financial statements for the years ended December 31, 2015 and 2016 (which was subsequently withdrawn) contained no adverse opinion or disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principles.

During each of the years ended December 31, 2015 and 2016, and through June 28, 2018, there were no disagreements between us and PwC China on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, any of which, if not resolved to PwC China's satisfaction, would have caused PwC China to make reference to the subject matter of the disagreement in its audit report.

During each of the years ended December 31, 2015 and 2016, and through June 28, 2018, there were no "reportable events," as defined below, requiring disclosure by us pursuant to Item 16F(a)(1)(v) of Form 20-F, other than as disclosed in this Item 16F. As previously disclosed in our annual report on Form 20-F for the year ended December 31, 2016, prior to our initial public offering in September 2016, we were a private company with limited accounting personnel and other resources with which to address our internal controls. PwC China did not conduct an audit of our internal controls over financial reporting.

PwC China was unable to assess what additional audit work it would need to plan and perform in order to complete to its satisfaction an audit of our 2017 financial statements. PwC China was unable to assess what additional audit work it would need to plan and perform in order to be in a position to reissue its audit opinion (or issue a new opinion) with respect to our 2016 financial statements. Because such matters were not resolved to the satisfaction of PwC China as of the date of its dismissal, such matters constitute reportable events under Item 16F(a)(1)(v).

In the course of auditing our consolidated financial statements for the year ended December 31, 2015, two material weaknesses in internal control over financial reporting were identified, specifically: (1) a lack of sufficient financial reporting and accounting personnel with appropriate knowledge of U.S. GAAP and the SEC reporting requirements to properly address complex accounting issues and to prepare and review our financial statements and related disclosures in accordance with U.S. GAAP and SEC financial reporting requirements; and (2) our lack of sufficient written policies and procedures for capturing certain services received before contracts were signed to timely record the related expenses in the financial statements. These same two material weaknesses were identified during the course of auditing our consolidated financial statements for the year ended December 31, 2016. These material weaknesses remain unresolved and require disclosure as a reportable event under Item 16F.

For purposes of this Item 16F, the term "reportable events" means any of the following events:

(A) The accountant's having advised the registrant that the internal controls necessary for the registrant to develop reliable financial statements do not exist;

(B) The accountant's having advised the registrant that information has come to the accountant's attention that has led it to no longer be able to rely on management's representations, or that has made it unwilling to be associated with the financial statements prepared by management;

(C)(1) The accountant's having advised the registrant of the need to expand significantly the scope of its audit, or that information has come to the accountant's attention during the time period covered by Item 16F(a)(1)(iv), that if further investigated may: (i) Materially impact the fairness or reliability of either: a previously issued audit report or the underlying financial statements; or the financial statements issued or to be issued covering the fiscal period(s) subsequent to the date of the most recent financial statements covered by an audit report (including information that may prevent it from rendering an unqualified audit report on those financial statements); or (ii) Cause it to be unwilling to rely on management's representations or be associated with the registrant's financial statements; and (2) Due to the accountant's resignation (due to audit scope limitations or otherwise) or dismissal, or for any other reason, the accountant did not so expand the scope of its audit or conduct such further investigation; or

(D)(1) The accountant's having advised the registrant that information has come to the accountant's attention that it has concluded materially impacts the fairness or reliability of either (i) a previously issued audit report or the underlying financial statements, or (ii) the financial statements issued or to be issued covering the fiscal period(s) subsequent to the date of the most recent financial statements covered by an audit report (including information that, unless resolved to the accountant's satisfaction, would prevent it from rendering an unqualified audit report on those financial statements); and (2) Due to the accountant's resignation, dismissal or declination to stand for reelection, or for any other reason, the issue has not been resolved to the accountant's satisfaction prior to its resignation, dismissal or declination to stand for re-election.

In accordance with PRC regulations, MarcumBP was required to cooperate with a qualified PRC local accounting firm to support its audit work in China. For these purposes, in July 2015, MarcumBP entered into a master cooperation agreement with Shandong Haoxin Certified Public Accountants Co., Ltd., or Shandong Haoxin, which has been PCAOB registered since 2010. The process of auditing our financial statements also required the engagement of a specialist technology audit firm to help verify certain of our revenue generating activities. That firm conducted the work to test our information technology systems to support our revenues and certain expenses. However, the firm could not agree to share its work and cooperate with PCAOB due to PRC cybersecurity and data privacy regulations that would have prohibited certain information from being provided to PCAOB. As a result, MarcumBP could not use the firm's report and underlying work in its audit and was unable to determine whether such specialist technology audit firm completed its work to MarcumBP's satisfaction. MarcumBP was unable to gather sufficient audit evidence to complete its procedures regarding the financial reporting items potentially impacted by this and other issues disclosed below. Therefore, to complete the audit work, on January 6, 2019 we dismissed MarcumBP and engaged Shandong Haoxin as our independent registered public accounting firm to audit our consolidated financial statements for the years ended December 31, 2015, 2016 and 2017. On January 6, 2019, we also retained MarcumBP to provide transition assistance to Shandong Haoxin in the performance of its audit activities.

MarcumBP did not deliver a report on our consolidated financial statements for the years ended December 31, 2015, 2016 and 2017. The decision to authorize the dismissal of MarcumBP and the engagement of Shandong Haoxin, as our independent registered public accounting firm was recommended by our Audit Committee and approved by our Board of Directors.

There were no disagreements between us and MarcumBP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, any of which, if not resolved to MarcumBP's satisfaction, would have caused MarcumBP to make reference to the subject matter of the disagreement in its audit report.

From June 28, 2018 through January 6, 2019, there were no reportable events requiring disclosure by us pursuant to Item 16F(a)(1)(v) of Form 20-F; however, in addition to the material weaknesses that were identified by PwC China, in the course of performing services, MarcumBP discussed with us control deficiencies associated with the following internal controls impacting its ability to complete its audit:

- Written policies and procedures for contract management.
- Verification of certain revenue items.
- Documentation supporting certain transactions.

These and other related matters are discussed in Item 15. Controls and Procedures, and Item 3. Key Information – Risk Factors, of this Annual Report on Form 20-F.

MarcumBP did not conduct an audit of our internal controls over financial reporting.

We did not consult with MarcumBP or Shandong Haoxin, prior to their respective engagements, on either (1) the application of accounting principles to specific transaction or the type of audit opinion that might be rendered on our financial statements, and no written report was provided to us or oral advice provided that the new accountant concluded was an important factor considered by us in reaching a decision on the accounting, auditing or financial reporting issue, or (2) any matter that was the subject of a disagreement or reportable event described above.

We provided PwC China and MarcumBP with a copy of the foregoing disclosure, and requested that PwC China and MarcumBP each furnish us with a letter addressed to the SEC stating whether it agrees with the above statements that relate to them, and if not, stating the respects in which it does not agree. We have received the requested letters from PwC China and MarcumBP, copies of which are included as Exhibits 15.3 and 15.4 to this annual report on Form 20-F.

PART III

ITEM 19. EXHIBITS

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Exhibit Title</u>	<u>Incorporated by Reference</u>			
		<u>Form</u>	<u>File No.</u>	<u>Exhibit No.</u>	<u>Filing Date</u>
1.1	<u>Fifth Amended and Restated Memorandum and Articles of Association of the registrant</u>	F-1	333-213348	3.3	August 26, 2016
2.1	<u>Specimen Certificate for Class B ordinary shares</u>	F-1	333-213348	4.2	August 26, 2016
2.2	<u>Deposit Agreement among the registrant, the depository and all holders and beneficial owners of the American Depositary Shares issued thereunder</u>	S-8	333-216798	4.3	March 17, 2017
2.3	<u>Specimen American Depositary Receipt (included in Exhibit 2.2)</u>				
2.4	<u>Second Amended and Restated Shareholders' Agreement dated June 30, 2015 among the registrant and certain other parties</u>	F-1	333-213348	4.4	August 26, 2016
2.5	<u>Registration Rights Agreement dated May 5, 2018 between the registrant and FutureX Innovation SPC</u>	6-K	001-37871	99.3	May 7, 2018
4.1	<u>Gridsum Holding Inc. Stock Option Plan</u>	6-K	001-37871	99.1	March 17, 2017
4.2	<u>Gridsum Holding Inc. Equity Incentive Plan</u>	6-K	001-37871	99.2	March 17, 2017
4.3	<u>Form of Indemnification Agreement between the registrant and members of its board of directors and its executive officers</u>	F-1	333-213348	10.3	August 26, 2016
4.4	<u>Form of Employment Agreement between the registrant and its executive officers</u>	F-1	333-213348	10.4	August 26, 2016
4.5	<u>Exclusive Business Cooperation Agreement dated December 22, 2014 between Dissector (Beijing) Technology Co., Ltd. and Gridsum Holding (Beijing) Co., Ltd.</u>	F-1	333-213348	10.5	August 26, 2016
4.6	<u>Exclusive Option Agreements dated December 22, 2014 among Dissector (Beijing) Technology Co., Ltd., Gridsum Holding (Beijing) Co., Ltd. and the shareholders of Gridsum Holding (Beijing) Co., Ltd.</u>	F-1	333-213348	10.6	August 26, 2016
4.7	<u>Shareholders' Voting Rights Proxy Agreements dated December 22, 2014 among Dissector (Beijing) Technology Co., Ltd., Gridsum Holding (Beijing) Co., Ltd. and the shareholders of Gridsum Holding (Beijing) Co., Ltd.</u>	F-1	333-213348	10.7	August 26, 2016
4.8	<u>Equity Pledge Agreements dated December 22, 2014 among Dissector (Beijing) Technology Co., Ltd., Gridsum Holding (Beijing) Co., Ltd. and the shareholders of Gridsum Holding (Beijing) Co., Ltd.</u>	F-1	333-213348	10.8	August 26, 2016
4.9	<u>English Translation of the Cooperation Agreement, dated March 16, 2012, by and between Beijing Gridsum Technology Co., Ltd. and the State Information Center of China</u>	F-1	333-213348	10.9	August 26, 2016
4.10	<u>English Translation of the Framework Agreement, dated June 25, 2015, by and among Beijing Gridsum Technology Co., Ltd., Guoxinjunhe (Beijing) Technology Co., Ltd. and Beijing Guoxin Xinchuang Investment Co., Ltd.</u>	F-1	333-213348	10.10	August 26, 2016

4.11	<u>English Translation of the Collaboration Agreement, dated June 25, 2015, by and among Beijing Gridsum Technology Co., Ltd., Guoxinjunhe (Beijing) Technology Co., Ltd. and Beijing Guoxin Xinchuang Investment Co., Ltd.</u>	F-1	333-213348	10.11	August 26, 2016
4.12	<u>US\$40 Million Convertible Note issued by the registrant, dated May 5, 2018</u>	6-K	001-37871	99.2	May 7, 2018
4.13**	<u>Convertible Note Purchase Agreement dated April 30, 2018 by and between Gridsum Holding Inc. and FutureX Innovation SPC (on behalf of and for the account of New Technology Fund II SP as one of its segregated portfolios)</u>				
8.1**	<u>List of significant subsidiaries and consolidated affiliated entities</u>				
12.1*	<u>CEO Certification required by Rule 13a-14(a)</u>				
12.2*	<u>Co-CFO Certification required by Rule 13a-14(a)</u>				
12.3*	<u>Co-CFO Certification required by Rule 13a-14(a)</u>				
13.1***	<u>CEO Certification required by Rule 13a-14(b)</u>				
13.2***	<u>Co-CFO Certification required by Rule 13a-14(b)</u>				
13.3***	<u>Co-CFO Certification required by Rule 13a-14(b)</u>				
15.1**	<u>Consent of Independent Registered Public Accounting Firm</u>				
15.2**	<u>Consent of Merits & Tree Law Offices</u>				
15.3*	<u>Letter dated February 11, 2019 from PricewaterhouseCoopers Zhong Tian LLP, pertaining to Item 16F</u>				
15.4*	<u>Letter dated February 11, 2019 from Marcum Bernstein & Pinchuk LLP, pertaining to Item 16F</u>				
101.INS**	XBRL Instance Document.				
101.SCH**	XBRL Taxonomy Extension Schema Document.				
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document.				
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.				
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document.				
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document.				

* Filed herewith

** Previously filed on January 7, 2019

*** Previously furnished on January 7, 2019

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F/A and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Gridsum Holding Inc.

By: /s/ Guosheng Qi

Name: Guosheng Qi

Title: Chief Executive Officer and Chairman

Date: February 11, 2019

CERTIFICATION

I, Guosheng Qi, certify that:

1. I have reviewed this amendment No. 1 to annual report on Form 20-F/A of Gridsum Holding Inc.;
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 officers 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 officers 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.

Dated: February 11, 2019

By: /s/ Guosheng Qi

Name: Guosheng Qi

Title: Chief Executive Officer

CERTIFICATION

I, Michael Peng Zhang, certify that:

1. I have reviewed this amendment No. 1 to annual report on Form 20-F/A of Gridsum Holding Inc.;
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 officers 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 officers 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.

Date: February 11, 2019

By: /s/ Michael Peng Zhang

Name: Michael Peng Zhang

Title: Co-Chief Financial Officer

CERTIFICATION

I, Ravi Sarathy, certify that

1. I have reviewed this amendment No. 1 to annual report on Form 20-F/A of Gridsum Holding Inc.;
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 officers 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 officers 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.

Date: February 11, 2019

By: /s/ Ravi Sarathy

Name: Ravi Sarathy

Title: Co-Chief Financial Officer

[Letterhead of PricewaterhouseCoopers Zhong Tian LLP]

Securities and Exchange Commission
100 F Street, N.E.
Washington
DC 20549
USA

February 11, 2019

Commissioners:

We have read the statements made by Gridsum Holding Inc. (copy attached), pursuant to Item 16F of its amendment No. 1 to annual report on Form 20-F/A, which we understand will be filed with the Securities and Exchange Commission as part of the amendment No. 1 to annual report on Form 20-F/A of Gridsum Holding Inc. dated February 11, 2019. We agree with the statements concerning our Firm contained therein.

Very truly yours,

/s/ PricewaterhouseCoopers Zhong Tian LLP

PricewaterhouseCoopers Zhong Tian LLP

Enclosure

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

On June 28, 2018, we dismissed PricewaterhouseCoopers Zhong Tian LLP, or PwC China, and engaged Marcum Bernstein & Pinchuk LLP, or MarcumBP, as our independent registered public accounting firm in connection with the audit of our consolidated financial statements for the years ended December 31, 2015, 2016 and 2017.

The decision to authorize the dismissal of PwC China and the engagement of MarcumBP was recommended by our Audit Committee and approved by our Board of Directors.

Prior to the dismissal, PwC China informed us of certain issues it had identified in conducting its audit of our financial statements for the year ended December 31, 2017. Those issues related to certain revenue recognition, cash flow, cost, expense items, and their underlying documentation. PwC China also advised us that certain of these issues would materially impact our financial statements for the year ended December 31, 2016, and accordingly, PwC China's audit report for our financial statements for the year ended December 31, 2016 should no longer be relied upon. PwC China also advised that the issues identified raised questions related to its ability to rely upon the representations of management. PwC China has not delivered an audit report with respect to our financial statements for the year ended December 31, 2017.

In response to the issues raised by PwC China, our Audit Committee commenced an investigation of such issues with assistance from external legal and accounting advisors. In October 2018, the Audit Committee concluded this investigation. We authorized PwC China to respond fully to inquiries from MarcumBP.

PwC China's report on our financial statements for the years ended December 31, 2015 and 2016 (which was subsequently withdrawn) contained no adverse opinion or disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principles.

During each of the years ended December 31, 2015 and 2016, and through June 28, 2018, there were no disagreements between us and PwC China on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, any of which, if not resolved to PwC China's satisfaction, would have caused PwC China to make reference to the subject matter of the disagreement in its audit report.

During each of the years ended December 31, 2015 and 2016, and through June 28, 2018, there were no "reportable events," as defined below, requiring disclosure by us pursuant to Item 16F(a)(1)(v) of Form 20-F, other than as disclosed in this Item 16F. As previously disclosed in our annual report on Form 20-F for the year ended December 31, 2016, prior to our initial public offering in September 2016, we were a private company with limited accounting personnel and other resources with which to address our internal controls. PwC China did not conduct an audit of our internal controls over financial reporting.

PwC China was unable to assess what additional audit work it would need to plan and perform in order to complete to its satisfaction an audit of our 2017 financial statements. PwC China was unable to assess what additional audit work it would need to plan and perform in order to be in a position to reissue its audit opinion (or issue a new opinion) with respect to our 2016 financial statements. Because such matters were not resolved to the satisfaction of PwC China as of the date of its dismissal, such matters constitute reportable events under Item 16F(a)(1)(v).

In the course of auditing our consolidated financial statements for the year ended December 31, 2015, two material weaknesses in internal control over financial reporting were identified, specifically: (1) a lack of sufficient financial reporting and accounting personnel with appropriate knowledge of U.S. GAAP and the SEC reporting requirements to properly address complex accounting issues and to prepare and review our financial statements and related disclosures in accordance with U.S. GAAP and SEC financial reporting requirements; and (2) our lack of sufficient written policies and procedures for capturing certain services received before contracts were signed to timely record the related expenses in the financial statements. These same two material weaknesses were identified during the course of auditing our consolidated financial statements for the year ended December 31, 2016. These material weaknesses remain unresolved and require disclosure as a reportable event under Item 16F.

For purposes of this Item 16F, the term "reportable events" means any of the following events:

- (A) The accountant's having advised the registrant that the internal controls necessary for the registrant to develop reliable financial statements do not exist;
- (B) The accountant's having advised the registrant that information has come to the accountant's attention that has led it to no longer be able to rely on management's representations, or that has made it unwilling to be associated with the financial statements prepared by management;

(C)(1) The accountant's having advised the registrant of the need to expand significantly the scope of its audit, or that information has come to the accountant's attention during the time period covered by Item 16F(a)(1)(iv), that if further investigated may: (i) Materially impact the fairness or reliability of either: a previously issued audit report or the underlying financial statements; or the financial statements issued or to be issued covering the fiscal period(s) subsequent to the date of the most recent financial statements covered by an audit report (including information that may prevent it from rendering an unqualified audit report on those financial statements); or (ii) Cause it to be unwilling to rely on management's representations or be associated with the registrant's financial statements; and (2) Due to the accountant's resignation (due to audit scope limitations or otherwise) or dismissal, or for any other reason, the accountant did not so expand the scope of its audit or conduct such further investigation; or

(D)(1) The accountant's having advised the registrant that information has come to the accountant's attention that it has concluded materially impacts the fairness or reliability of either (i) a previously issued audit report or the underlying financial statements, or (ii) the financial statements issued or to be issued covering the fiscal period(s) subsequent to the date of the most recent financial statements covered by an audit report (including information that, unless resolved to the accountant's satisfaction, would prevent it from rendering an unqualified audit report on those financial statements); and (2) Due to the accountant's resignation, dismissal or declination to stand for reelection, or for any other reason, the issue has not been resolved to the accountant's satisfaction prior to its resignation, dismissal or declination to stand for re-election.

In accordance with PRC regulations, MarcumBP was required to cooperate with a qualified PRC local accounting firm to support its audit work in China. For these purposes, in July 2015, MarcumBP entered into a master cooperation agreement with Shandong Haoxin Certified Public Accountants Co., Ltd., or Shandong Haoxin, which has been PCAOB registered since 2010. The process of auditing our financial statements also required the engagement of a specialist technology audit firm to help verify certain of our revenue generating activities. That firm conducted the work to test our information technology systems to support our revenues and certain expenses. However, the firm could not agree to share its work and cooperate with PCAOB due to PRC cybersecurity and data privacy regulations that would have prohibited certain information from being provided to PCAOB. As a result, MarcumBP could not use the firm's report and underlying work in its audit and was unable to determine whether such specialist technology audit firm completed its work to MarcumBP's satisfaction. MarcumBP was unable to gather sufficient audit evidence to complete its procedures regarding the financial reporting items potentially impacted by this and other issues disclosed below. Therefore, to complete the audit work, on January 6, 2019 we dismissed MarcumBP and engaged Shandong Haoxin as our independent registered public accounting firm to audit our consolidated financial statements for the years ended December 31, 2015, 2016 and 2017. On January 6, 2019, we also retained MarcumBP to provide transition assistance to Shandong Haoxin in the performance of its audit activities.

MarcumBP did not deliver a report on our consolidated financial statements for the years ended December 31, 2015, 2016 and 2017. The decision to authorize the dismissal of MarcumBP and the engagement of Shandong Haoxin, as our independent registered public accounting firm was recommended by our Audit Committee and approved by our Board of Directors.

There were no disagreements between us and MarcumBP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, any of which, if not resolved to MarcumBP's satisfaction, would have caused MarcumBP to make reference to the subject matter of the disagreement in its audit report.

From June 28, 2018 through January 6, 2019, there were no reportable events requiring disclosure by us pursuant to Item 16F(a)(1)(v) of Form 20-F; however, in addition to the material weaknesses that were identified by PwC China, in the course of performing services, MarcumBP discussed with us control deficiencies associated with the following internal controls impacting its ability to complete its audit:

- Written policies and procedures for contract management.
- Verification of certain revenue items.
- Documentation supporting certain transactions.

These and other related matters are discussed in Item 15. Controls and Procedures, and Item 3. Key Information – Risk Factors, of this Annual Report on Form 20-F.

MarcumBP did not conduct an audit of our internal controls over financial reporting.

We did not consult with MarcumBP or Shandong Haoxin, prior to their respective engagements, on either (1) the application of accounting principles to specific transaction or the type of audit opinion that might be rendered on our financial statements, and no written report was provided to us or oral advice provided that the new accountant concluded was an important factor considered by us in reaching a decision on the accounting, auditing or financial reporting issue, or (2) any matter that was the subject of a disagreement or reportable event described above.

We provided PwC China and MarcumBP with a copy of the foregoing disclosure, and requested that PwC China and MarcumBP each furnish us with a letter addressed to the SEC stating whether it agrees with the above statements that relate to them, and if not, stating the respects in which it does not agree. We have received the requested letters from PwC China and MarcumBP, copies of which are included as Exhibits 15.3 and 15.4 to this annual report on Form 20-F.

[Letterhead of Marcum Bernstein & Pinchuk LLP]

February 11, 2019
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Commissioners:

We have read the statements made by Gridsum Holding Inc. (copy attached), pursuant to Item 16F of its amendment No. 1 to annual report on Form 20-F/A, which we understand will be filed with the Securities and Exchange Commission as part of the amendment No. 1 to annual report on Form 20-F/A of Gridsum Holding Inc. dated February 11, 2019. We agree with the statements concerning our Firm contained therein.

Very truly yours,

/s/ Marcum Bernstein & Pinchuk LLP

Marcum Bernstein & Pinchuk LLP

Enclosure

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

On June 28, 2018, we dismissed PricewaterhouseCoopers Zhong Tian LLP, or PwC China, and engaged Marcum Bernstein & Pinchuk LLP, or MarcumBP, as our independent registered public accounting firm in connection with the audit of our consolidated financial statements for the years ended December 31, 2015, 2016 and 2017.

The decision to authorize the dismissal of PwC China and the engagement of MarcumBP was recommended by our Audit Committee and approved by our Board of Directors.

Prior to the dismissal, PwC China informed us of certain issues it had identified in conducting its audit of our financial statements for the year ended December 31, 2017. Those issues related to certain revenue recognition, cash flow, cost, expense items, and their underlying documentation. PwC China also advised us that certain of these issues would materially impact our financial statements for the year ended December 31, 2016, and accordingly, PwC China's audit report for our financial statements for the year ended December 31, 2016 should no longer be relied upon. PwC China also advised that the issues identified raised questions related to its ability to rely upon the representations of management. PwC China has not delivered an audit report with respect to our financial statements for the year ended December 31, 2017.

In response to the issues raised by PwC China, our Audit Committee commenced an investigation of such issues with assistance from external legal and accounting advisors. In October 2018, the Audit Committee concluded this investigation. We authorized PwC China to respond fully to inquiries from MarcumBP.

PwC China's report on our financial statements for the years ended December 31, 2015 and 2016 (which was subsequently withdrawn) contained no adverse opinion or disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principles.

During each of the years ended December 31, 2015 and 2016, and through June 28, 2018, there were no disagreements between us and PwC China on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, any of which, if not resolved to PwC China's satisfaction, would have caused PwC China to make reference to the subject matter of the disagreement in its audit report.

During each of the years ended December 31, 2015 and 2016, and through June 28, 2018, there were no "reportable events," as defined below, requiring disclosure by us pursuant to Item 16F(a)(1)(v) of Form 20-F, other than as disclosed in this Item 16F. As previously disclosed in our annual report on Form 20-F for the year ended December 31, 2016, prior to our initial public offering in September 2016, we were a private company with limited accounting personnel and other resources with which to address our internal controls. PwC China did not conduct an audit of our internal controls over financial reporting.

PwC China was unable to assess what additional audit work it would need to plan and perform in order to complete to its satisfaction an audit of our 2017 financial statements. PwC China was unable to assess what additional audit work it would need to plan and perform in order to be in a position to reissue its audit opinion (or issue a new opinion) with respect to our 2016 financial statements. Because such matters were not resolved to the satisfaction of PwC China as of the date of its dismissal, such matters constitute reportable events under Item 16F(a)(1)(v).

In the course of auditing our consolidated financial statements for the year ended December 31, 2015, two material weaknesses in internal control over financial reporting were identified, specifically: (1) a lack of sufficient financial reporting and accounting personnel with appropriate knowledge of U.S. GAAP and the SEC reporting requirements to properly address complex accounting issues and to prepare and review our financial statements and related disclosures in accordance with U.S. GAAP and SEC financial reporting requirements; and (2) our lack of sufficient written policies and procedures for capturing certain services received before contracts were signed to timely record the related expenses in the financial statements. These same two material weaknesses were identified during the course of auditing our consolidated financial statements for the year ended December 31, 2016. These material weaknesses remain unresolved and require disclosure as a reportable event under Item 16F.

For purposes of this Item 16F, the term "reportable events" means any of the following events:

- (A) The accountant's having advised the registrant that the internal controls necessary for the registrant to develop reliable financial statements do not exist;
- (B) The accountant's having advised the registrant that information has come to the accountant's attention that has led it to no longer be able to rely on management's representations, or that has made it unwilling to be associated with the financial statements prepared by management;

(C)(1) The accountant's having advised the registrant of the need to expand significantly the scope of its audit, or that information has come to the accountant's attention during the time period covered by Item 16F(a)(1)(iv), that if further investigated may: (i) Materially impact the fairness or reliability of either: a previously issued audit report or the underlying financial statements; or the financial statements issued or to be issued covering the fiscal period(s) subsequent to the date of the most recent financial statements covered by an audit report (including information that may prevent it from rendering an unqualified audit report on those financial statements); or (ii) Cause it to be unwilling to rely on management's representations or be associated with the registrant's financial statements; and (2) Due to the accountant's resignation (due to audit scope limitations or otherwise) or dismissal, or for any other reason, the accountant did not so expand the scope of its audit or conduct such further investigation; or

(D)(1) The accountant's having advised the registrant that information has come to the accountant's attention that it has concluded materially impacts the fairness or reliability of either (i) a previously issued audit report or the underlying financial statements, or (ii) the financial statements issued or to be issued covering the fiscal period(s) subsequent to the date of the most recent financial statements covered by an audit report (including information that, unless resolved to the accountant's satisfaction, would prevent it from rendering an unqualified audit report on those financial statements); and (2) Due to the accountant's resignation, dismissal or declination to stand for reelection, or for any other reason, the issue has not been resolved to the accountant's satisfaction prior to its resignation, dismissal or declination to stand for re-election.

In accordance with PRC regulations, MarcumBP was required to cooperate with a qualified PRC local accounting firm to support its audit work in China. For these purposes, in July 2015, MarcumBP entered into a master cooperation agreement with Shandong Haoxin Certified Public Accountants Co., Ltd., or Shandong Haoxin, which has been PCAOB registered since 2010. The process of auditing our financial statements also required the engagement of a specialist technology audit firm to help verify certain of our revenue generating activities. That firm conducted the work to test our information technology systems to support our revenues and certain expenses. However, the firm could not agree to share its work and cooperate with PCAOB due to PRC cybersecurity and data privacy regulations that would have prohibited certain information from being provided to PCAOB. As a result, MarcumBP could not use the firm's report and underlying work in its audit and was unable to determine whether such specialist technology audit firm completed its work to MarcumBP's satisfaction. MarcumBP was unable to gather sufficient audit evidence to complete its procedures regarding the financial reporting items potentially impacted by this and other issues disclosed below. Therefore, to complete the audit work, on January 6, 2019 we dismissed MarcumBP and engaged Shandong Haoxin as our independent registered public accounting firm to audit our consolidated financial statements for the years ended December 31, 2015, 2016 and 2017. On January 6, 2019, we also retained MarcumBP to provide transition assistance to Shandong Haoxin in the performance of its audit activities.

MarcumBP did not deliver a report on our consolidated financial statements for the years ended December 31, 2015, 2016 and 2017. The decision to authorize the dismissal of MarcumBP and the engagement of Shandong Haoxin, as our independent registered public accounting firm was recommended by our Audit Committee and approved by our Board of Directors.

There were no disagreements between us and MarcumBP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, any of which, if not resolved to MarcumBP's satisfaction, would have caused MarcumBP to make reference to the subject matter of the disagreement in its audit report.

From June 28, 2018 through January 6, 2019, there were no reportable events requiring disclosure by us pursuant to Item 16F(a)(1)(v) of Form 20-F; however, in addition to the material weaknesses that were identified by PwC China, in the course of performing services, MarcumBP discussed with us control deficiencies associated with the following internal controls impacting its ability to complete its audit:

- Written policies and procedures for contract management.
- Verification of certain revenue items.
- Documentation supporting certain transactions.

These and other related matters are discussed in Item 15. Controls and Procedures, and Item 3. Key Information – Risk Factors, of this Annual Report on Form 20-F.

MarcumBP did not conduct an audit of our internal controls over financial reporting.

We did not consult with MarcumBP or Shandong Haoxin, prior to their respective engagements, on either (1) the application of accounting principles to specific transaction or the type of audit opinion that might be rendered on our financial statements, and no written report was provided to us or oral advice provided that the new accountant concluded was an important factor considered by us in reaching a decision on the accounting, auditing or financial reporting issue, or (2) any matter that was the subject of a disagreement or reportable event described above.

We provided PwC China and MarcumBP with a copy of the foregoing disclosure, and requested that PwC China and MarcumBP each furnish us with a letter addressed to the SEC stating whether it agrees with the above statements that relate to them, and if not, stating the respects in which it does not agree. We have received the requested letters from PwC China and MarcumBP, copies of which are included as Exhibits 15.3 and 15.4 to this annual report on Form 20-F.