
CONNECTED TRANSACTIONS

OVERVIEW

Pursuant to Chapter 14A of the Listing Rules the transactions that we enter into with our connected persons (as defined under Chapter 14A of the Listing Rules) will constitute our continuing connected transactions under the Listing Rules upon Listing.

CONNECTED PERSONS

Following the Listing, the following parties, which have entered into certain written agreements with our Group, will be connected persons of our Group:

AsiaInfo Chengdu: AsiaInfo Chengdu, being a company controlled by Dr. Tian, is a connected person of our Group pursuant to Rule 14A.12(1)(c) of the Listing Rules.

AsiaInfo International: AsiaInfo International, being a company controlled by Dr. Tian, is a connected person of our Group pursuant to Rule 14A.12(1)(c) of the Listing Rules.

Upon Listing, the following transactions between each of the connected persons and the Group, which are entered into in the ordinary and usual course of business of our Group on normal commercial terms on a recurring and continuing nature, will constitute continuing connected transactions of the Group under Chapter 14A of the Listing Rules.

FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

Set out below is a summary of the continuing connected transactions of our Group which are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

1. Office Premise Services Provided by Our Group to AsiaInfo Chengdu

On November 26, 2018, our Company entered into an office premise services framework agreement with AsiaInfo Chengdu whereby our Company (on behalf of members of our Group) agreed to provide work stations space and certain ancillary office maintenance services to AsiaInfo Chengdu. The relevant work stations are located at No. 10 Xibeiwang East Road, Haidian District, Beijing, PRC.

The term of the office premise services framework agreement is from the Listing Date until December 31, 2020. The consideration payable by AsiaInfo Chengdu to our Group under the office premise services framework agreement is calculated based on the actual work stations occupied by AsiaInfo Chengdu at a price of RMB15,000 per standard work station per year (subject to annual review based on the prevailing property rental market price and consumer price index), which was determined with reference to the site area and the property rental market price in the vicinity area of the relevant office premises.

2. Office Premise Services Provided by Our Group to AsiaInfo International

On November 26, 2018, our Company entered into an office premise services framework agreement with AsiaInfo International whereby our Company (on behalf of members of our Group) agreed to provide work stations space and certain ancillary office maintenance services to AsiaInfo International and its subsidiaries (the “**AsiaInfo International Group**”). The relevant work stations are located at No. 10 Xibeiwang East Road, Haidian District, Beijing, PRC.

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The term of the office premise services framework agreement is from the Listing Date until December 31, 2020. The consideration payable by AsiaInfo International to our Group under the office premise services framework agreement is calculated based on the actual work stations occupied by the AsiaInfo International Group at a price of RMB15,000 per standard work station per year (subject to annual review based on the prevailing property rental market price and consumer price index), which was determined with reference to the site area and the property rental market price in the vicinity area of the relevant office premises.

3. Technological Services Provided by Our Group to AsiaInfo International

Historically, AsiaInfo China has provided technological services to the AsiaInfo International Group whereby professional staff of AsiaInfo China provided technological support to projects undertaken by the AsiaInfo International Group. We expect the provision of such technological support services to continue after Listing.

To comply with the requirements of the Listing Rules, on November 26, 2018, AsiaInfo International entered into a technological cooperation framework agreement (the “**International Technological Service Framework Agreement**”) with our Company whereby our Company (on behalf of members of our Group) agreed to provide professional staff and technological services to support the projects undertaken by the AsiaInfo International Group. The term of the International Technological Service Framework Agreement is from the Listing Date until December 31, 2020.

The service fees payable by the AsiaInfo International Group to our Group under any technological service agreement pursuant to the International Technological Service Framework Agreement will be determined based on arm’s length negotiation between the parties on a “cost-plus” basis with reference to (i) the staff costs (including staff salaries and disbursements); and (ii) a 6% premium on such costs. In determining the staff costs, the parties will take into account factors such as the market salary rate, performance and experience of the relevant professional staff and the general nature of work to be provided. The 6% premium is determined based on an independent transfer pricing report prepared by an independent financial expert.

4. Management Support Services Provided by Our Group to AsiaInfo International

Since 2017, our Group has provided certain management support services to the AsiaInfo International Group to support the back-office functions of the AsiaInfo International Group. It is expected that the provision of such services will continue after Listing.

To comply with the requirements of the Listing Rules, on November 26, 2018, our Company entered into a management support service framework agreement (the “**International Management Support Framework Agreement**”) with AsiaInfo International, pursuant to which our Company (on behalf of members of our Group) agreed to provide the AsiaInfo International Group with management support services, which cover management services including legal support, human resources, management system and network and daily administrations etc. The term of the International Management Support Framework Agreement is from the Listing Date until December 31, 2020.

The service fees payable by the AsiaInfo International Group to our Group under any management support agreement pursuant to the International Management Support Framework Agreement will be determined based on arm’s length negotiation between the parties on a “cost-plus” basis with reference to (i) all of the costs for the provision of the relevant services; and (ii) a 6%

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premium on such costs. The 6% premium is determined based on an independent transfer pricing report prepared by an independent financial expert.

PARTIALLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following transactions are entered into in the ordinary and usual course of business of our Group and on normal commercial terms. Our Directors currently expect that the highest applicable percentage ratio calculated for the purpose of Chapter 14A of the Listing Rules will be more than 0.1% but less than 5% on an annual basis. Accordingly, under Rule 14A.76(2)(a) of the Listing Rules, the following transactions will be subject to the reporting, announcement and annual review requirements but will be exempted from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

1. Technological Services Provided by AsiaInfo Chengdu to Our Group

Background:

Following our disposal of AsiaInfo Chengdu in late 2015, our Group has sought technological services from AsiaInfo Chengdu whereby (i) professional staff of AsiaInfo Chengdu provided technological support, primarily in the area of network security support, to projects undertaken by our Group; and (ii) AsiaInfo Chengdu provided certain network security services and products to our Group. The technological services rendered by AsiaInfo Chengdu will primarily enable our Group to maintain and enhance the overall security of the software products and services offered by our Group from time to time. In limited cases, such technological services will also enable our Group to enter into and perform customer contracts containing both BSS software products/services and network security products/services. We expect that the provision of such services will continue after Listing.

To comply with the requirements of the Listing Rules, on November 26, 2018, AsiaInfo Chengdu entered into a technological cooperation framework agreement (the “**Chengdu Technological Service Framework Agreement**”) with our Company whereby AsiaInfo Chengdu agreed to (i) provide professional staff to support the projects undertaken by our Group; and (ii) provide certain network security services and products to our Group. The term of the Chengdu Technological Service Framework Agreement is from the Listing Date until December 31, 2020.

For the avoidance of doubt, the technological services provided by AsiaInfo Chengdu are different from and independent of the Network Security Transitional Arrangement (details of which are set out in the paragraphs headed “—Partially Exempt Continuing Connected Transactions—2. Network Security Transitional Arrangement”). This is primarily because (i) the products and services provided by AsiaInfo Chengdu under the Chengdu Technological Service Framework Agreement are for the purpose of developing and fulfilling existing and future customer orders for the Group's own products and services under its Software Business; and (ii) the products and services underlying the Network Security Transitional Arrangement are pure network security software and services and the Group has already ceased to enter into new agreements under the Network Security Transitional Arrangement.

Pricing Policy:

The service fees payable by our Group to AsiaInfo Chengdu under any technological service agreement pursuant to the Chengdu Technological Service Framework Agreement will be determined based on arm's length negotiation between the parties with reference to (i) the staff costs (including salaries and staff disbursements) and/or (ii) market rate of the similar products and services. In any

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event, such service fees shall not be higher than the price charged by AsiaInfo Chengdu to its independent third party customers for similar services and products.

Historical Transaction Amounts:

The approximate annual transaction amounts paid by our Group to AsiaInfo Chengdu for the technological services for the three years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018 are as follows:

For the year ended December 31,			For the six months ended June 30, 2018
2015	2016	2017	
(RMB)	(RMB)	(RMB)	(RMB)
14,721,575	36,079,497	20,309,291	3,320,754

The relatively low transaction amounts paid by our Group to AsiaInfo Chengdu for the technological services for the six months ended June 30, 2018 were primarily due to seasonality in our business and operations and the slow-down of our project development and delivery in the first half of the year.

Annual Caps and Basis of Caps:

We expect that the maximum aggregate fees and expenses for the technological services payable by our Group to AsiaInfo Chengdu for the years ending December 31, 2018, 2019 and 2020 will be as follows:

For the year ending December 31,		
2018	2019	2020
(RMB)	(RMB)	(RMB)
17,350,000	23,020,000	24,000,000

In arriving at the above annual caps in respect of the technological services to be provided by AsiaInfo Chengdu, our Directors have considered the following factors (i) the pricing policy under the Chengdu Technological Service Framework Agreement; (ii) the pipeline of projects and our estimation that the workload of our Group is expected to grow steadily in 2018, 2019 and 2020; (iii) the expected growth and expansion of our Group's business and customer demands in light of the development of the 5G network; (iv) our estimate of market trend for labor cost of technological staff, which is expected to grow steadily in the next three years; and (v) the increasing focus of our customers on the network security features in our products, which is expected to result in a more extensive collaboration between us and AsiaInfo Chengdu in terms of network security technological support.

2. Network Security Transitional Arrangement

Background:

After our disposal of AsiaInfo Chengdu in late 2015 and in order to accommodate our customers' project management schedules and business needs, we, as a transitional arrangement, entered into project development contracts for the provision of network security software products and services by AsiaInfo Chengdu to our customers and subsequently outsourced all tasks under these agreements at the same price to AsiaInfo Chengdu by signing project development contracts with AsiaInfo Chengdu (the "**Network Security Transitional Arrangement**"). We have ceased to enter into any new agreements with respect to the Network Security Transitional Arrangement starting

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2018. However, upon Listing, certain of the project development contracts for the provision of network security software products and services entered into between our Group and AsiaInfo Chengdu prior to 2018 (the “**Existing Development Agreements**”) will still be ongoing. The continuing performance of the obligations under such contracts will constitute continuing connected transaction of our Group after Listing. Part and parcel to the project development contracts in connection with the Network Security Transitional Arrangement, we also entered into a strategic cooperation agreement with AsiaInfo Chengdu, pursuant to which AsiaInfo Chengdu agreed to pay us service fees at the rate of 2% based on the total contract amount of the relevant project development contracts (the “**Existing Cooperation Agreement**”, together with the Existing Development Agreements, the “**Existing Agreements**”) in consideration for the services provided by us to AsiaInfo Chengdu under the Network Security Transitional Arrangement such as contract management, customer relationship management and liaison services.

To comply with the requirements of the Listing Rules, on November 26, 2018, AsiaInfo Chengdu entered into a software development and strategic cooperation framework agreement (the “**Network Security Framework Agreement**”) with our Company whereby (i) our Company (on behalf of members of our Group) agreed to continue to outsource all tasks under the Existing Development Agreements to AsiaInfo Chengdu at the same price at which we agreed to charge our customers under the relevant project development contracts we entered into with our customers; and (ii) AsiaInfo Chengdu agreed to continue to be bound by the Existing Cooperation Agreement and pay us service fees at the rate of 2% based on the total outstanding contract amount of the Existing Development Agreements. The term of the Network Security Framework Agreement is from the Listing Date until December 31, 2020. Pursuant to the Software Development and Cooperation Agreement, if there is any conflict between the Existing Agreements and the Software Development and Cooperation Framework Agreement, the provisions in the Software Development and Cooperation Framework Agreement shall prevail.

Pricing Policy:

The fees and expenses payable under the Network Security Framework Agreement and the Existing Agreements have been determined based on arm’s length negotiations between the parties. The consideration payable under the Existing Development Agreements shall equal to the price at which we agreed to charge our customers under the relevant project development contracts. In setting the service fees payable by AsiaInfo Chengdu to our Group at the rate of 2%, the parties have taken into consideration and benchmarked against the market rate for transactions of similar nature with reference to an independent transfer pricing report provided by an independent financial expert.

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Historical Transaction Amounts:

The approximate historical amount of (i) fees paid by our Group to AsiaInfo Chengdu for the project development service under the Network Security Transitional Arrangement and (ii) the service fees paid by AsiaInfo Chengdu to our Group under the Network Security Transitional Arrangement for the three years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018 are as follows:

	For the year ended December 31,			For the six months ended
	2015	2016	2017	June 30, 2018
	(RMB)	(RMB)	(RMB)	(RMB)
Fees paid by our Group to AsiaInfo Chengdu for the project development service under the Network Security Transitional Arrangement	74,524,896	341,308,323	123,445,307	12,108,696
Service fees paid by AsiaInfo Chengdu to our Group under the Network Security Transitional Arrangement	1,490,498	6,826,166	2,468,906	242,174

The transaction amounts under the Network Security Transitional Arrangement further decreased in the six months ended June 30, 2018 because we have ceased to enter into any new agreements with respect to the Network Security Transitional Arrangement and the backlog of the remaining Existing Agreements has been decreasing over time.

Annual Caps and Basis of Caps:

We expect that the aggregate maximum amount of fees paid by our Group to AsiaInfo Chengdu for the outsourced service and the service fees paid by AsiaInfo Chengdu to our Group under the Network Security Transitional Arrangement for the years ending December 31, 2018, 2019 and 2020 will be as follows:

	For the year ending December 31,		
	2018	2019	2020
	(RMB)	(RMB)	(RMB)
Fees payable by our Group to AsiaInfo Chengdu for the project development service under the Network Security Transitional Arrangement	19,630,000	2,800,000	640,000
Service fees payable by AsiaInfo Chengdu to our Group under the Network Security Transitional Arrangement	392,600	56,000	12,800

In arriving at the above annual caps in respect of the fees payable by our Group to AsiaInfo Chengdu for the project development service under the Network Security Transitional Arrangement and the service fees payable by AsiaInfo Chengdu to our Group under the Network Security Transitional Arrangement, our Directors have considered the following factors (i) the backlog of the projects under the Existing Development Agreements and the corresponding project development contracts we signed with the customers; (ii) the estimated progress of the projects under the Existing Development Agreements and the corresponding project development contracts we signed with the customers with reference to the stages of performance/completion and the maturity profile of the backlog contracts given that the relevant service fees are primarily charged on the basis of percentage of completion of a relevant project; and (iii) the service fees at the rate of 2% under the Network Security Transitional Arrangement.

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3. Management Support Services Provided by Our Group to AsiaInfo Chengdu

Background:

Historically, our Group has provided certain management support services to AsiaInfo Chengdu to support the back-office functions of AsiaInfo Chengdu. It is expected that such services will continue after Listing.

To comply with the requirements of the Listing Rules, on November 26, 2018, our Company entered into a management support service framework agreement (the “**Chengdu Management Support Framework Agreement**”) with AsiaInfo Chengdu, pursuant to which our Group agreed to provide AsiaInfo Chengdu and its subsidiaries with management support services, which cover management services including legal support, human resources, management system and network, daily administrations etc. The term of the Chengdu Management Support Framework Agreement is from the Listing Date until December 31, 2020.

Pricing Policy:

The service fees payable by AsiaInfo Chengdu to our Group under any management support service agreement pursuant to the Chengdu Management Support Framework Agreement will be determined based on arm’s length negotiation between the parties on a “cost-plus” basis with reference to (i) all of the costs for the provision of the relevant services; and (ii) a 6% premium on such costs. The 6% premium is determined based on an independent transfer pricing report prepared by an independent financial expert.

Historical Transaction Amounts:

The approximate annual fees paid by AsiaInfo Chengdu to our Group for the management support services for the three years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018 are as follows:

For the year ended December 31,			For the six months ended
2015	2016	2017	June 30, 2018
(RMB)	(RMB)	(RMB)	(RMB)
11,473,645	43,947,368	17,493,525	4,382,645

The fees paid by AsiaInfo Chengdu to our Group for the management support services for the six months ended June 30, 2018 were relatively low primarily because the demand for management support service by AsiaInfo Chengdu is typically lower in the first half of the year.

Annual Caps and Basis of Caps:

We expect that the maximum aggregate fees for the management support services payable by AsiaInfo Chengdu to our Group for the years ending December 31, 2018, 2019 and 2020 will be as follows:

For the year ending December 31,		
2018	2019	2020
(RMB)	(RMB)	(RMB)
15,850,000	11,200,000	10,000,000

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In arriving at the above annual caps in respect of the management support services to be provided by our Group to AsiaInfo Chengdu, our Directors have considered the following factors (i) the historical amounts of the services fees for the management support services received by our Group from AsiaInfo Chengdu; (ii) AsiaInfo Chengdu is expected to continue to develop its internal back-office functions (in particular, internal IT network and administrative functions) in the future and reduce its demand of the management support services from our Group, as a result of which the service fees receivable by our Group from AsiaInfo Chengdu in respect of the management support service are expected to gradually decrease in the next three years.

WAIVER APPLICATION FOR PARTIALLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

Our Directors, including the independent non-executive Directors, consider that disclosure of the partially exempt continuing connected transactions described above in full compliance with the Listing Rules would be impracticable and, in particular, would add unnecessary administrative costs to our Company. In addition, the Directors, including the independent non-executive Directors, believe that it is in the interest of our Company to continue with these transactions after Listing.

As a result, pursuant to Rule 14A.105 of the Listing Rules, we have sought and obtained from the Stock Exchange a waiver from strict compliance with the announcement requirement under Rule 14A.35 of the Listing Rules in respect of partially exempt continuing connected transactions, subject to the condition that the annual transaction values shall not exceed their respective estimated annual caps (as stated above).

In addition, the Directors confirm that we will comply with the applicable requirements under Chapter 14A of the Listing Rules and will immediately inform the Stock Exchange if any of the proposed annual caps set out above are exceeded, or when there is a material change in the terms of the transactions.

CONFIRMATION FROM THE DIRECTORS

Our Directors, including the independent non-executive Directors, are of the view that:

- (a) the continuing connected transactions described above for which a waiver is sought have been entered into and will be carried out in the ordinary and usual course of business of our Group on normal commercial terms, and that the terms of the continuing connected transactions are fair and reasonable and in the interest of our Company and the Shareholders as a whole; and
- (b) the proposed annual caps (where applicable) of such continuing connected transactions set out above are fair and reasonable and in the interest of our Company and the Shareholders as a whole.

CONFIRMATION FROM THE JOINT SPONSORS

The Joint Sponsors have reviewed the relevant information and historical figures prepared and provided by our Company relating to the partially exempt continuing connected transactions above, and has also discussed this transaction with us and obtained various representations from us. Based on the aforementioned due diligence work, the Joint Sponsors are of the view that:

- (a) such partially exempt continuing connected transactions set out above for which a waiver is sought have been entered into in the ordinary and usual course of business of our Group

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on normal commercial terms, are fair and reasonable and in the interest of our Company and the Shareholders as a whole; and

- (b) the proposed annual caps (where applicable) of such partially exempt continuing connected transactions set out above are fair and reasonable and in the interest of our Company and the Shareholders as a whole.