

## RISK FACTORS

### RISKS RELATED TO OUR BUSINESS AND INDUSTRY

**We rely on major telecommunication network operators for their provision of telecommunication resources. If we fail to maintain our collaborations with these telecommunication network operators or they keep increasing their service fees level, our business, results of operations and financial condition will be materially and adversely affected.**

We interconnect with telecommunication network operators in the PRC to enable the use of our services by our clients. Specifically, we obtain telecommunication resources from telecommunication network operators and offer our cPaaS platform and other solutions to allow our clients to access and utilise these resources in a way that suits their specific communication needs. We currently collaborate with all three major telecommunication network operators in the PRC.

Our cost of sales incurred from the three major telecommunication network operators in the PRC amounted to RMB315.1 million, RMB488.3 million and RMB609.5 million for the three years ended 31 December 2021, respectively. In particular, we rely on client-supplier E as our largest supplier who accounted for 59.6%, 69.8% and 70.3% of our cost of sales for the three years ended 31 December 2021. Our reliance on client-supplier E for provision of telecommunication resources will have significant impact on our business, results of operations and financial condition in the event of any shortage or delay in their provision of telecommunication resources. For details of our relationship with these suppliers, please refer to the paragraph headed "Business — Our suppliers" in this [REDACTED].

In addition, the fees charged by telecommunication network operators may fluctuate more frequently than we could charge our clients to pass on the increased cost, which may adversely affect our business, margins and financial condition. Our ability to respond to any increased fees charged by telecommunication network operators may be constrained if all telecommunication network operators implement similar fee increases, if the magnitude of the fees are disproportionately large when compared to the underlying prices we charge our clients, or if the market conditions and competitive landscape limit our ability to increase the price that we charge our clients. If we are unable to respond to such fee increases in a way that preserves the competitiveness or profitability of our services, our business, results of operations and financial condition could be materially and adversely affected. During the Track Record Period, our financial performance had been adversely affected due to the increase of services fees of telecommunication resources. The telecommunication network operators commenced the general increase in their service fees in the fourth quarter of 2019, and the average service fees continued to increase in 2020 mostly due to the general increase back in the fourth quarter of 2019 which had led to the decrease in gross profit margin during relevant periods, whereas the average service fees stayed relatively stable during 2021. The average per unit service fees of telecommunication resources increased for 5.3% from 2020 to 2021, while it surged for 22.6% from 2019 to 2020. If the service fees level continues to increase, our profitability may be further adversely affected if we are not able to swiftly pass the increased costs on our clients.

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Our close collaborations with the major telecommunication network operators have reduced our operating flexibility as there are very limited alternatives in terms of securing telecommunication resources in the PRC due to the current regulatory administration on the telecommunication network operators. Furthermore, despite that we have historically collaborated closely with the major telecommunication network operators in the PRC and their local branches, they may terminate our collaborations upon expiration. Although we were generally able to renew our contracts with the telecommunication network operators and their local branches in the past, if a significant portion of such telecommunication network operators and their local branches cease to provide us with access to their telecommunication resources or fail to provide services to us on favourable terms, or if we fail to maintain our collaborations with these major telecommunication network operators, our business, results of operations and financial condition will be materially and adversely affected.

**We have experienced an increase in our costs of telecommunication resources, our actual pricing may vary from our estimations due to unexpected circumstances, thereby affecting our pricing ability, business, results of operations and financial conditions.**

According to Frost & Sullivan, the service fees of telecommunication resources are expected to remain relatively stable, primarily because the gaps of the resource fee charged by the three major telecommunication network operators have converged gradually from the previous price adjustment. Nonetheless, if there is any further or unexpected significant increase in telecommunication costs, there is no assurance that we will be able to shift the increase in cost to our clients or to shift the increase in cost in time to our clients. Such cost overruns with our initial estimate may cause our profitability to be lower than what we expected. As such, a further increase in telecommunication costs may negatively affect our pricing ability, business, results of operations and financial conditions.

**If we fail to manage the growth and expansion of our business and operations, our business, results of operations and financial condition may be materially and adversely affected.**

We have been expanding the type and scale of our business and the geographic presence in the PRC of our services since our inception. We may continue to launch more new business initiatives as we unearth more pressing needs of the intelligent CRM services industry. Such expansion in business, while introducing more monetisation opportunities, may increase the complexity of our operations and place a significant strain on our managerial, operational, financial and human resources.

During the Track Record Period, the revenue generated was RMB600.2 million, RMB796.8 million and RMB991.9 million for the three years ended 31 December 2021, respectively, representing a CAGR of 28.6% from 2019 to 2021. However, We cannot assure that we will achieve similar growth rates in the future. Our current and planned personnel, business systems, operation procedures and controls may not be adequate to support our future growth and expansion. We cannot ensure that we will be able to effectively manage our growth or to implement all these business systems, operation procedures and control measures successfully, neither can we guarantee that our new business initiatives will be as successful as expected.

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**If we fail to improve and enhance the functionality, performance, reliability, design, security, and scalability of our services and solutions to suit our clients' evolving needs, our clients may not repurchase our services and/or solutions, which, in turn, will have a material and adverse impact on our business, results of operations and financial condition.**

The market in which we operate and compete is characterised by constant change and innovation, and we expect this market to continue to evolve rapidly. Our success to date has been based on our ability to identify and anticipate the needs of our clients and design services and solutions that provide our clients with the tools they require to develop their businesses. For details on the services that we offer, please refer to the paragraph headed "Business — Our services" in this [REDACTED]. Our ability to attract new clients, retain existing clients, increase sales to both new and existing clients and increase cross-sales of our CRM PaaS services and CRM SaaS services will highly depend on our ability to continue improving and enhancing the functionality, performance, reliability, design, security, and scalability of our services.

We may experience difficulties with developments in technology that could delay or prevent the development, introduction or implementation of new services, solutions and enhancements. While we invest a significant amount of time and resources in software development, we may not have sufficient resources to continuously improve and enhance our services and solutions. In addition, our in-house developers may take several months to update, code and test new and upgraded services or solutions. To the extent we are not able to improve and enhance the functionality, performance, reliability, design, security, and scalability of our services or solutions in a manner that responds to our clients' evolving needs, our existing clients may not repurchase our services and/or we may not be able to attract new clients, and our business, results of operations and financial condition will be adversely affected.

**We have incurred negative operating cash flow and there can be no assurance that we will not have negative operating cash flow and net cash outflow in the future.**

We recorded net operating cash outflows of RMB39.9 million and RMB17.5 million in 2019 and 2021, respectively. Our negative operating cash flow for the year ended 31 December 2019 was primarily attributable to our trade receivables while the negative cash flow from operating activities for the year ended 31 December 2021 was primarily attributable to decrease in trade and other payables and the increase in our trade, bill and other receivables and prepayments. We cannot assure you that we will be able to generate positive cash flow from operating activities in the future. If we encounter long-term and continuous net operating cash outflow in the future, we may not have sufficient working capital to cover our operating costs, and our business, results of operations and financial position may be materially and adversely affected.

**Our future business growth and expansion is dependent on the continued development of our services and our target clients' need for intelligent CRM services.**

Save for traditional communication-based services, we offer a comprehensive portfolio of intelligent CRM services to enterprises of all sizes, from which we generate revenues. The market we target and compete is rapidly evolving and subject to a number of risks and uncertainties. Our success will depend on a substantial extent on the growth

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of this market, especially the widespread adoption of intelligent CRM services as a replacement for legacy on-premise systems and other traditional forms of management system. The utilisation of intelligent CRM services is relatively nascent in the PRC, and our target clients may not fully recognise the need for, or the benefits of, our services. Moreover, many enterprises have invested substantially technical and financial resources and personnel in the implementation and integration of legacy on-premise management systems and, therefore, may be reluctant or unwilling to incur the switching costs required to migrate to intelligent CRM services such as ours.

The growth of the market also depends on a number of other factors, including the refresh rate for legacy on-premise systems, the cost, performance and perceived value associated with intelligent CRM services, as well as their ability to address security, stability, and privacy concerns. In order to grow our business and extend our market position, we intend to educate our existing and prospective clients about the benefits of our services and continuously enhance and innovate our services and features to increase market acceptance. However, if ever the intelligent CRM technologies fail to develop in a way that satisfies the growing demands of our clients, it could significantly harm our business. In addition, the intelligent CRM services industry may fail to grow significantly or at all, or there could be a reduction in demand as a result of a lack of public acceptance, concern about security issues in relation to public cloud, technological challenges, competing services and solutions, decreases in IT spending by current and prospective clients, weakening economic conditions and other causes. The occurrence of any of the foregoing could materially and adversely affect our business, results of operations and financial condition.

**We face competition in the markets where we operate and may not be able to compete successfully against our existing and future competitors.**

According to the Frost & Sullivan Report, the intelligent CRM services industry in the PRC is rapidly evolving and competitive. With the introduction of new technologies and market entrants, we expect competition to continue to intensify in the future. The principal competitive factors in our market include comprehensiveness of services, innovation ability, brand awareness and reputation, strength of sales and marketing efforts as well as client reach.

Some of our competitors may be able to respond more quickly and effectively than we can to new opportunities, technologies, standards or client requirements. In addition, some competitors may offer services that address one or a limited number of functions at lower prices, with greater depth than our services or in geographies or industry verticals where we do not operate or are less established. Our current and potential competitors may develop and market new services with functionality comparable to ours, which could lead to increased pricing pressures. Moreover, as we expand the scope of our business, we may face additional competition.

If we are unable to compete effectively or maintain favourable pricing, it could lead to reduced revenues, reduced margins or the failure of our services to achieve or maintain widespread market acceptance, any of which could materially and adversely affect our business, results of operations and financial condition.

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**If we fail to keep up with rapid changes in AI, DI, machine learning and other capabilities, our future success may be adversely affected.**

We utilise AI, DI, machine learning and other capabilities to process and analyse data and develop our services. The success of our business will depend, in part, on our ability to adapt and respond effectively to the technological development in AI and DI on a timely basis. If we are unable to design services and services that catch up with such trend in a timely manner, our market share may shrink, and our results of operations and financial conditions may be negatively impacted.

If we are unable to develop new services that satisfy our clients and provide enhancements and new features for our existing services that keep pace with rapid technological and industrial change, our business, results of operations and financial condition could be adversely affected. If our competitors are able to deliver more efficient, convenient and secure services and solutions at lower prices by using new technologies, it could adversely impact our ability to maintain and increase our market share.

Our AI and DI capabilities may be launched and used on a variety of software, and we need to continuously modify and enhance our services to adapt to changes and innovation in these capabilities. AI and DI models themselves can create problems when they deliver biased results (which can happen, for example, if a population is underrepresented in the data used to train the model), become unstable, or yield conclusions for which there is no actionable recourse for those affected by its decisions. Any underperformance of our AI and DI capabilities could reduce the demand for our services. We must continue to invest substantial resources in research and development to enhance our technology. If we are unable to respond to these changes in a cost-effective manner, our solutions may become less marketable and less competitive or obsolete, and our business, results of operations and financial condition could be adversely affected.

**We depend on cloud infrastructure operated by third parties and any disruption of or interference with our use of such third-party services would adversely affect our business, results of operations and financial condition.**

We are vulnerable to problems experienced by third-party cloud service providers. We can't avoid experiencing interruptions, delays or outages with respect to our third-party cloud infrastructure in the future due to a variety of factors, including infrastructure changes, human, hardware or software errors, hosting disruptions and capacity constraints. Such issues could arise from a number of causes such as technical failures, natural disasters, fraud or security attacks. The level of service provided by these providers, or regular or prolonged interruptions in that service, could also affect the use of and our clients' satisfaction with our services and could harm our business and reputation.

Furthermore, in certain circumstances, our cloud service providers may discontinue or limit our access to one or more services, or terminate or seek to terminate contractual relationship. Although we expect that we could obtain similar services from other third parties, if our arrangements with our current cloud service providers were terminated, we could experience interruptions in our ability to make our services available to clients, as well as delays and additional expenses in arranging for alternative cloud infrastructure services.

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As a result, we may incur additional costs, fail to attract or retain clients, or be subject to potential liability, any of which could have an adverse effect on our business, results of operations and financial condition.

### **Our results of operations are subject to fluctuations due to seasonality.**

Our business is to help our clients to achieve customer acquisition and to enhance the connection between our clients and their customers. Accordingly, our business interacted with our clients' business closely and is accordingly subject to seasonality and we typically record lower revenue during the first quarter of the financial year as compared to the remaining of the financial year.

As advised by Frost & Sullivan, the intelligent CRM services industry in the PRC is subject to the seasonality of consumer spending and corresponding marketing trends. Intelligent CRM services providers typically generate lower revenue in the first quarter than other quarters, mainly due to slower and postponed spending or purchase of intelligent CRM products and services as a result of holidays such as Chinese lunar new year in the first quarter.

Any failure to plan our business developments and allocate our resources well taking into account of the seasonality of our business will result in negative impact on our operating cash flows and business performance which may in turn adversely affect our business, results of operations and financial condition.

### **We may not be able to sustain the gross profit margins at a satisfactory level**

We experienced a decline in profitability during the Track Record Period. Our gross profit margins for the three years ended 31 December 2021 was 32.8%, 24.3% and 23.4% respectively. If our financial performance continues to decline, we may be exposed to risks such as (i) turning our net current assets/net assets position into net current liabilities/net liabilities position; and (ii) experiencing difficulties in obtaining financings. Despite our financial performance has been stabilised, there can be no assurance that we will be able to maintain and secure the gross profit margins at a satisfactory level.

As we increase the variety of the intelligent CRM services we offer, the performance of our intelligence CRM business will become increasingly dependent on our ability to anticipate clients' demands and preferences, adapt to changes in the intelligent CRM industry, stay abreast of technological trends and introduce new services that are appealing to our clients.

In addition, the gross profit margins for our business may decline to a material extent for other reasons, including increased cost of sales such as resources acquisition costs, decreased clients spending, decrease of our clients' need for different intelligent CRM services, increased competition and changes in government policies or general economic conditions which are, to a large extent, beyond our control.

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Accordingly, we cannot guarantee that our gross profit margins will not fluctuate from time to time. If there is any decline in our gross profit margins in the future or if we fail to sustain the gross profit margins at the levels recorded during the Track Record Period, our results of operations and financial condition may be adversely affected.

**We have slim net profit margins and therefore our results of operations and financial condition could be adversely affected if our net profit margins cannot be sustained.**

Our net profit margins were 2.2%, 3.7% and 1.5%, for the three years ended 31 December 2021, respectively, while our adjusted net profit margins (non-HKFRS measures) were approximately 2.2%, 3.7% and 3.1%, for the same period, respectively. The slim net profit margins were attributable to our continuous increase in research and development expenses as we continued to invest in order to enhance our competitiveness and meet the everchanging demand from our clients. For detail description of the expenses, please refer to the paragraph headed "Financial Information — Description of major components of our results of operations — Research and development expenses" in this [REDACTED].

Our thin net profit margins may adversely affect our working capital sufficiency and sensitivity to unfavourable changes in selling prices, costs and interest rates. We cannot assure that we will be able to maintain our net profit and net profit margin at similar level in the future. Furthermore, we cannot assure that we will not experience any fluctuations in our net profit and net profit margins in the future, which would have an adverse impact on our results of operations and financial condition.

**Any discontinuation, reduction or delay of any government grants, tax refund, or preferential tax treatments would have an adverse impact on our business.**

During the Track Record Period, we recorded government grants of RMB1.5 million, RMB1.9 million and RMB0.5 million in 2019, 2020 and 2021, respectively.

We also recorded certain VAT refunds from the PRC government during the Track Record Period, which are non-recurring in nature. Such VAT refunds amounted to RMB2.8 million, RMB2.8 million and RMB4.1 million in 2019, 2020 and 2021.

In addition, we have benefited from preferential tax treatments from the PRC government during the Track Record Period. For example, Xuan Wu qualified as a key software enterprise and, accordingly, was entitled to a preferential income tax rate of 10% in 2019, and it qualified as a high and new technology enterprise and accordingly was entitled to a preferential income tax rate of 15% in 2020 and 2021. Furthermore, our subsidiaries operating in the PRC were eligible for certain tax credits on their research and development expenses during the Track Record Period. For details, please refer to Note 9 Other income to the Accountant's Report set out in Appendix I to this [REDACTED].

We cannot assure that we will continue to receive government grants at the same level or at all, or that we will continue to enjoy the current preferential tax treatments, in which case our business, results of operations and financial condition may be materially and adversely affected.

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**Security breaches and attacks against our systems and network, and any potentially resulting breach of or failure to protect personal, confidential and proprietary information, could damage our reputation and negatively impact our business, as well as materially and adversely affect our financial condition and results of operations.**

Our cybersecurity measures may not detect, prevent or control all attempts to compromise our systems, including distributed denial-of-service attacks, viruses, Trojan horses, malicious software, break-ins, phishing attacks, third-party manipulation, security breaches, employee misconduct or negligence or other attacks, risks, data leakage and similar disruptions that may cause service interruptions or jeopardise the security of data stored in and transmitted by our systems or that we otherwise maintain. Breaches of our cybersecurity measures could result in unauthorised access to our systems, misappropriation of information or data, deletion or modification of user information, or a denial-of-service or other interruption to our business operations. As techniques used to obtain unauthorised access to or sabotage systems change frequently and may not be known until launched against us or our third-party service providers, there can be no assurance that we will be able to anticipate, or implement adequate measures to protect against, these attacks. If we are unable to avert these attacks and security breaches, we could be subject to significant legal and financial liability, our reputation and business would be harmed, and we could sustain substantial revenue loss from lost sales and client dissatisfaction.

**Our services involve transmission of certain information belonging to the end customers of our clients and may be subject to complex and evolving laws and regulations regarding privacy and data protection. If we fail to comply with privacy and data protection laws and regulations, our business, results of operations and financial condition may be adversely affected.**

The PRC government in recent years has enacted a series of laws and regulations on the protection of personally identifiable data to which we may be subject.

On 10 July 2021, the Cyberspace Administration of China released a draft of revised version of Cybersecurity Review Measures, requiring (i) data processors who carry out data processing activities and (ii) any "operator of critical information infrastructure" to conduct cybersecurity review if they will affect or may affect national security. As the revised draft Cybersecurity Review Measures has just been adopted, we still face uncertainties that the measures may be enacted, interpreted or implemented in ways that will negatively affect us. There can be no assurance if we are required to follow the cybersecurity review procedures, and if so, whether we would be able to complete the applicable cybersecurity review procedures in a timely manner. In addition, any failure or delay in the completion of the cyber security review procedures or any other noncompliance or perceived noncompliance with the PRC Cybersecurity Law or related regulations may prevent us from using or providing certain services, and may result in fines or other penalties such as making certain required rectification, suspending our relates business, taking down our operations and bring actions against us by PRC regulatory authority, clients or others.



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In addition, the PRC Data Security Law promulgated by the Standing Committee of the National People's Congress of China has come into effect on 1 September 2021. The PRC Data Security Law provides for data security obligations on entities and individuals carrying out data processing activities, introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, as well as the degree of harm it will cause to national security, public interests or legitimate rights and interests of individuals or organizations when such data is tampered with, destroyed, leaked, or illegally acquired or used, and provides for a national security review procedure for those data processing activities which may affect national security.

The above and other similar legal and regulatory developments could lead to legal and economic uncertainties, affect how we operate our business, how we and our business partners process data. We may incur substantial costs to comply with such laws and regulations.

We have adopted various measures to ensure legal compliance, including (i) specifying in the service agreements between our clients and us that the clients shall comply with all applicable personal data security law, such as obtaining consent from the relevant individuals, when acquiring personal information; (ii) setting up an information security working group to carry out daily management and inspection on personal data protection, such as regular cyber security inspection and training employees on information security and information security risk assessment; (iii) adopting technical measures to prevent employees from copying or exporting the content of the personal data; and (iv) establishing internal management regulations and policies on data protection and cybersecurity including but not limited to security management system, management requirements on data base, database security management requirements and information security risk assessment. However, we cannot assure that our privacy and data protection measures will be considered sufficient under applicable laws and regulations. Additionally, the effectiveness of our privacy and data protection measures is also subject to system failure, interruption, inadequacy, security breaches or cyberattacks. If we are unable to comply with the then-applicable laws and regulations, or to address any privacy and data protection concerns, such actual or alleged failure could damage our reputation, deter current and potential clients from using our services, which will adversely affect our business, results of operations and financial condition.

Meanwhile, we will continuously make efforts to comply with the principles and requirements of the new standard. We expect to incur additional RMB500,000 annually to ensure our compliance with latest regulations relating to cybersecurity, data security and personal information protection in the PRC. Nevertheless, we cannot ensure that all the efforts we put in complying with the new standard would be sufficient as the regulators may further request. Any failure of us in complying with such laws and regulations in collecting, using or disclosing personally information collected by us or accessed through our system could result in proceedings or actions against us by governmental entities or others. These proceedings or actions may subject us to significant penalties and negative publicity, require us to change our business practices, increase our costs and severely disrupt our business.

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**Regulatory, legislative or self-regulatory developments for provision of intelligent CRM services, including privacy and data protection regimes, are expansive, not clearly defined and rapidly evolving. These laws and regulations could create unexpected costs, subject us to enforcement actions for compliance failures, or restrict portions of our business or cause us to change our technology platform or business model.**

Governments across the world, including the PRC government, have enacted, or are considering enacting, legislation relating to the intelligent CRM services. There may be an increase in legislation and regulation related to online marketing, the use of geo-location data to inform marketing, the collection and use of anonymous internet user data and unique device identifiers, such as IP address or mobile unique device identifiers, and other data protection and privacy regulation. These laws and regulations could adversely affect the demand for or effectiveness and value of our services, force us to incur substantial costs, or require us to change our business practices in a manner that could adversely affect our business, results of operations and financial condition, or compromise our ability to effectively pursue our growth strategies.

We strive to comply with all applicable laws and regulations relating to privacy and data collection, processing, use, and disclosure. These laws and regulations are continually evolving, are not always clear, and the measures we take to comply with these laws, regulations and industry standards may not always be effective. We may be subject to litigation or enforcement action or reduced demand for our services or solutions if we or our clients fail to abide by applicable privacy laws, or to provide adequate notice and/or obtain consent from end users. Any proceeding or perception of concerns relating to our collection, use, disclosure, and retention of data, including our security measures applicable to the data we collect, whether or not valid, could adversely affect our reputation, force us to spend significant amounts on defence of these proceedings, distract our management, increase our costs of doing business and inhibit the use of our services, which could materially and adversely affect our business, results of operations and financial condition.

**We are exposed to credit risk in respect of our receivables which may adversely affect our business, results of operations and financial condition.**

Our clients span across private sector and public sector, to whom we typically extend credit terms that result in receivables. We usually make credit assessment of our clients before entering into service agreements. However, we cannot ensure that we are or will be able to accurately assess the creditworthiness of each of our clients before entering into agreements or extending credit terms, neither can we guarantee that each of these clients will be able to strictly follow and enforce the payment schedules provided in the agreements.

Our trade and bill receivables increased from RMB161.3 million as at 31 December 2019 to RMB239.8 million as at 31 December 2020, and further to RMB264.3 million as at 31 December 2021, which was in line with our overall business growth during the Track Record Period. Our trade receivables turnover days increased from 86.5 days for the year ended 31 December 2019 to 91.7 days for the year ended 31 December 2020 and further to 92.6 days for the year ended 31 December 2021 primarily due to increase in credit sales

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during the same period. For details, please refer to the paragraph headed "Financial Information — Discussion of certain key balance sheet items — Trade and bill receivables" in this [REDACTED].

We recorded net impairment losses on financial assets of RMB2.9 million, RMB4.3 million and RMB5.4 million for the three years ended 31 December 2021, respectively. For details, please refer to the paragraph headed "Financial Information — Description of major components of our results of operations — Net impairment losses on financial assets" in this [REDACTED].

A client's ability to make payments on timely basis depend various factors such as general economic and market conditions and the client's cash flow position, which are out of our control. Defaults in making payments to use on projects for which we have already incurred significant costs and expenditures can materially and adversely affect our business, results of operations and financial condition.

### **Our intangible assets and goodwill are subject to potential impairment**

As at 31 December 2021, the carrying amount of our intangible assets was RMB14.1 million which consisted of RMB10.5 million of goodwill, RMB3.0 million of software and RMB0.6 million of platform. Intangible assets are reviewed and tested for impairment either individually or at the cash-generating unit ("CGU") level in accordance with the relevant accounting standards and an impairment loss is recognised in profit or loss if the carrying amount of the intangible asset or the relevant CGU exceeds its recoverable amount. During the Track Record Period, we did not record any impairment losses on our intangible assets. However, there is no guarantee that we will not incur impairment losses in the future. Any significant impairment losses could materially and adversely affect our profitability.

### **Fluctuation of our financial assets at fair value through profit or loss, due to the use of unobservable inputs in their valuation, has affected our results of operations during the Track Record Period and may continue to affect our results of operations in the future**

We recorded a fair value of financial assets at fair value through profit or loss of nil, RMB30.2 million and RMB21.5 million as at 31 December 2019, 2020 and 2021, respectively, which primarily consist of investments in certain wealth management products issued by major and reputable commercial banks in the PRC. We are exposed to credit risk in relation to our investments in wealth management products which may adversely affect the net changes in their fair value. We cannot assure you that market conditions and regulatory environment will create fair value gains on the wealth management products we invest in or we will not incur any fair value losses on our investments in the wealth management products in the future. If we incur such fair value losses, our results of operations, financial condition and prospects may be adversely affected. For details of our valuation techniques and the unobservable inputs, please refer to note 19 to the Accountant's Report in Appendix I to this [REDACTED]. The valuation techniques are subject to uncertainty. We cannot assure you that the fair value of our financial assets will not decrease in the future and any significant decreases in the fair value of our financial assets would materially and adversely affect our financial condition.

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### **We may not be able to fulfil our obligations in respect of contract liabilities, which may have a material and adverse impact on our results of operations and financial condition**

Our contract liabilities amounted to RMB29.3 million, RMB34.0 million and RMB31.9 million as at 31 December 2019, 2020 and 2021, respectively. Our contract liabilities primarily arose from the advance payments received from clients while the underlying services are yet to be provided. For details, please refer to the paragraph headed "Financial Information — Discussion of certain key balance sheet items — Current liabilities — Contract liabilities". If we fail to fulfil our obligations under our contracts with clients, we may not be able to convert such contract liabilities into revenue, and our clients may require us to refund the advance payments we have received which may adversely affect our cash flow and liquidity condition. Such failure may adversely affect our business, our relationship with such clients, which may also affect our reputation and results of operations in the future.

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

During the Track Record Period, there were no new shares granted and no share-based compensation expenses recognised. For details, please refer to note 2.21 to the Accountant's Report in Appendix I of this [REDACTED]. However, we may, in the future grant additional share-based compensation to incentivise our employees to contribute to us. Issuance of additional Shares with respect to such share-based compensation may dilute the shareholding percentage of our existing Shareholders. Expenses incurred with respect to such share-based compensation may also increase our cost of sales and operating expenses and therefore have a material and adverse effect on our financial performance.

### **If we fail to perform our services in accordance with contractual requirements, we could be subject to significant costs or liability and our reputation could be harmed.**

We contract with our clients to provide a wide range of services to assist them in various industries, such as FMCG, financial, TMT, Government-related industries. The relevant services are complex and subject to contractual requirements, and any mistake or failure to perform in accordance with contractual specifications on our part could result in our clients suing us for breach of contract as well as other severe consequences, which may deter prospective clients.

### **Real or perceived errors, defects, failures, vulnerabilities, or bugs in our solutions could diminish client demand, harm our business, results of operations and financial condition and subject us to liability.**

Our clients use our services to manage important aspects of their businesses, and any errors, defects, failures, vulnerabilities, bugs or other performance problems of our services could hurt our reputation and may damage our clients' businesses. Our services and the underlying infrastructure are highly technical and complex. There can be no assurance that our services will not now or in the future contain undetected errors, defects, bugs, or vulnerabilities, which may cause temporary service outages for some

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clients. Certain errors in our software code may not be discovered until the code has been released. Any error, defect, bug, or vulnerability discovered in our code after release could result in damage to our reputation, loss of clients, loss of revenues, or liability for damages, any of which could adversely affect our business, results of operations and financial condition. We implement bug fixes and upgrades as part of our regularly scheduled operation maintenance, which may lead to system downtime. Even if we are able to implement the bug fixes and upgrades in a timely manner, any history of defects, or the loss, damage or inadvertent release of confidential client data, could cause our reputation to be harmed, and clients may elect not to purchase or renew their agreements with us and subject us to warranty claims or other liabilities. The costs associated with any material defect or error in our services or other performance problems may be substantial and could materially and adversely affect our business, results of operations and financial condition.

**We may be unable to obtain, maintain and protect our intellectual property rights and proprietary information or prevent third parties from any unauthorised use of our technologies.**

Our trade secrets, trademarks, copyrights, patents, and other intellectual property rights are critical to our success. We rely on, and expect to continue to rely on, a combination of confidentiality and non-compete agreements with our employees, licence agreements with third parties with whom we have relationships, as well as our trademark, domain name, copyrights, trade secrets, patent rights, and other intellectual property rights to protect our brand. However, events beyond our control may pose a threat to our intellectual property rights, as well as to our services and solutions. Effective protection of trademarks, copyrights, domain names, patents, and other intellectual property rights is expensive and difficult to maintain, both in terms of application and costs, as well as the costs of defending and enforcing those rights. While we have taken measures to protect our intellectual property rights, we cannot ensure that such efforts are either sufficient or effective. As a result, our intellectual property rights may be infringed, misappropriated, or challenged, which could result in them being narrowed in scope or declared invalid or unenforceable.

Similarly, our reliance on unpatented proprietary information and technology, such as trade secrets and confidential information, depends in part on our agreements with employees and third parties which contain restrictions on the use and disclosure of such intellectual property. These agreements may be insufficient or may be breached, either of which could potentially result in the unauthorised use or unauthorised disclosure of our trade secrets and other intellectual property, including to our competitors. As a result, we could lose our crucial competitive advantage derived from such intellectual property. Significant impairments to our intellectual property rights, and limitations on our ability to assert our intellectual property rights against others, may result in a material and adverse effect on our business, results of operations and financial condition.

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### **We may be subject to claims by third parties for intellectual property infringement.**

There may be litigation in the intelligent CRM services industry regarding intellectual property rights. Third parties may, from time to time, claim that we are infringing, misappropriating or otherwise violating their intellectual property rights, including patents, software copyrights and other intellectual property rights. Third parties may also claim that our employees have misappropriated or divulged their former employers' trade secrets or confidential information. We may be found in the future, to have infringed upon third party's proprietary rights.

Our broad range of proprietary technologies increases the likelihood that third parties may claim infringement by us of their intellectual property rights. Certain technologies necessary for our business may, in fact, be patented by other parties either now or in the future. If such technologies were held under a valid patent by a third party, we would have to negotiate a licence for the use of that technology, which we may not be able to negotiate on commercially reasonable terms or at all. The existence of such a patent, or our inability to negotiate a licence for any such technology on reasonable terms, could force us to cease using such technology and services incorporating such technology. In addition, even if we succeed in obtaining a licence to continue using the relevant technology, we may incur substantial licence fees, which could materially and adversely affect our business, results of operations and financial condition.

If we are found to have infringed upon the intellectual property rights of any third party in legal or other proceedings that may be asserted against us, we could be subject to material monetary liabilities for such infringement. We could also be required to refrain from using, developing or selling certain services incorporating the affected intellectual property rights, which could materially and adversely affect our business and results of operations. We may continue to receive, in the future, notices of claims of infringement, misappropriation or misuse of other parties' proprietary rights. There can be no assurance that we will prevail in contesting these claims or that actions alleging infringement by us of third-party intellectual property rights will not be asserted or prosecuted against us. Furthermore, legal or other proceedings involving infringement of intellectual property rights may require significant time and expense to defend, may divert management's attention away from other aspects of our operations and, upon resolution, may have a material adverse effect on our business, results of operations and financial condition. Any negative publicity about our claimed infringement of a third party's proprietary rights could also harm our business.

### **Our brand and brand reputation are integral to our success. If we fail to effectively maintain, promote and enhance our brand, our business and competitive advantage may be harmed.**

We believe that maintaining, promoting and enhancing our brand and brand reputation is critical to expanding our business. Maintaining and enhancing our brand and brand name depends largely on our ability to continue to provide useful, reliable, and innovative services and solutions, which we cannot assure that we will do successfully.

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We believe the importance of brand recognition will increase as competition in our market increases. In addition to our ability to provide reliable and useful services and solutions at competitive prices, the successful promotion of our brand will also depend on the effectiveness of our marketing efforts. We market our services primarily through our in-house direct sales force, and a number of free traffic sources, including client referrals and word-of-mouth. We anticipate that our efforts to market our brand will involve significant costs and expenses, which we intend to increase going forward. We cannot assure, however, that our marketing spends will lead to increased revenue, and even if so, such increases in revenue may not be sufficient to offset expenses we incur in building and maintaining our brand and brand reputation.

**We are dependent on the continued services and performance of our Directors, senior management and other key employees, the loss of any of whom could adversely affect our business, operating results and financial condition.**

Our future performance depends on the continued services and contributions of our Directors, senior management and other key employees, to oversee and execute our business plans and identify and pursue new opportunities and services innovations. Any loss of service of our Directors, senior management or other key employees can significantly delay or prevent us from achieving our strategic business objectives, and adversely affect our business, results of operations and financial condition. From time to time, there may be changes in our Directors, senior management and other key employees, resulting from the hiring or departure of executives, which could also disrupt our business. Hiring suitable replacements and integrating them within our business also requires significant amounts of time, training and resources, and may impact our existing corporate culture. Failure to retain or attract key personnel on timely and commercially viable basis may materially and adversely affect our business, results of operations and financial condition.

**If we are unable to attract, retain and motivate qualified personnel, our business, results of operations and financial condition may be adversely affected.**

Our future success depends, in part, on our ability to continue to attract and retain highly skilled personnel specialising in mobile internet, cloud computing and marketing. The inability to attract or retain qualified personnel, or delays in hiring required personnel, may cause significant harm to our business, financial condition and operating results. Our ability to continue to attract and retain highly skilled personnel, specifically employees with technical and engineering skills and employees with high levels of experience in designing and developing software and intelligent CRM services, will be critical to our future success.

Meanwhile, the size and scope of our business may require us to hire and retain a wide range of effective and experienced personnel who can adapt to a dynamic, competitive and challenging business environment. Competition for talent and qualified personnel in the PRC's intelligent CRM and targeted marketing industries is intense, and the availability of suitable and qualified candidates in the PRC is limited. Competition for these individuals could cause us to offer higher compensation and other benefits to attract and retain them. In addition, even if we were to offer higher compensation and other

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benefits, we cannot assure that these individuals would choose to join, or continue working for us. If we fail to attract and retain personnel with suitable managerial or other expertise, or to maintain an adequate labour force on a continuous and sustainable basis, our business, results of operations and financial condition could be materially and adversely affected.

**Our risk management and internal control systems may not be adequate or effective in all respects, which may materially and adversely affect our business, results of operations and financial condition.**

We seek to establish risk management and internal control systems consisting of an organisational framework, policies, procedures and risk management methods that are appropriate for our business operations and seek to continue to improve these systems. However, due to the inherent limitations in the design and implementation of risk management and internal control systems, we cannot assure that our risk management and internal control systems will be able to identify, prevent and manage all risks. Our internal control procedures are designed to monitor our operations and ensure their overall compliance. However, our internal control procedures may be unable to identify all non-compliance incidents in a timely manner or at all. It is not always possible to timely detect and prevent fraud and other misconduct, and the precautions we take to prevent and detect such activities may not be effective.

Our risk management and internal controls also depend on the effective implementation by our employees. We cannot assure that such implementation will not involve any human errors or mistakes, which may materially and adversely affect our business and results of operations. If we fail to timely adapt our risk management policies and procedures to our changing business, our business, results of operations and financial condition could be materially and adversely affected.

**Negative publicity and allegations involving us, our Shareholders, Directors, officers, employees, associates and business partners may affect our reputation and, as a result, our business, results of operations and financial condition may be negatively affected.**

We, our Shareholders, Directors, officers, employees, associates and business partners may be subject to negative media coverage and publicity from time to time. Such negative coverage in the media and publicity could change market perception that we are a trustworthy intelligent CRM services provider. In addition, to the extent our employees and business partners were non-compliant with any laws or regulations, we may also suffer negative publicity or harm to our reputation. As a result, we may be required to spend significant time and incur substantial costs in response to allegations and negative publicity and may not be able to diffuse them to the satisfaction of our investors and clients.



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**Our strategy of making strategic acquisitions and investments may fail and may result in material and adverse impact on our business, results of operations and financial condition.**

As part of our business growth strategy, we may, in the future, acquire businesses or platforms that we believe can expand and strengthen our services and client coverage, as well as our technological capacities. Our ability to implement our acquisition strategy will depend on our ability to identify suitable targets, our ability to reach agreements with them on commercially reasonable terms, and within a desired timeframe, and the availability of financing to complete acquisitions, as well as our ability to obtain any required Shareholder or government approvals. Our strategic acquisitions and investments could subject us to uncertainties and risks, including high acquisition and financing costs, potential ongoing financial obligations and unforeseen or hidden liabilities, failure to achieve our intended objectives, benefits or revenue-enhancing opportunities, uncertainty of entering into markets in which we have limited or no experience, and in which competitors have stronger market positions, costs associated with, and difficulties in, integrating acquired businesses and managing a larger business, and diversion of our resources and management attention. Our failure to address these uncertainties and risks may have a material adverse effect on our business, results of operations and financial condition. Even if we are able to successfully acquire or invest in suitable businesses, we cannot assure that we will achieve our expected returns on such acquisitions or investments. If we fail to identify or acquire suitable projects or achieve our expected returns on such acquisitions or investments in the future, our business, results of operations and financial condition may be materially and adversely affected.

Acquisitions also pose the risk that we may be exposed to successor liability relating to the actions by an acquired company and its management before and after the acquisition. The due diligence that we conduct in connection with an acquisition or investment may not be sufficient to discover unknown liabilities, and any contractual guarantees or indemnities that we receive from the sellers of the acquired companies or investment target companies and/or their shareholders may not be sufficient to protect us from, or compensate us for, actual liabilities. A material liability associated with an acquisition or investment could adversely affect our reputation and reduce the benefits of the acquisition or investment. In addition, if the management team or key employees of an acquired company fail to perform as expected, this may affect the business performance of such acquired company and, in turn, have a material adverse effect on our business, results of operations and financial condition.

**Any future occurrence of force majeure events, natural disasters or outbreaks of contagious diseases in the PRC, including the COVID-19 outbreak, may materially and adversely affect our business, results of operations and financial condition.**

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, H1N1 influenza, Ebola virus and the recent COVID-19 outbreak across the globe, may materially and adversely affect our business, results of operations and financial condition. An outbreak of an epidemic or contagious disease or other adverse public health developments in the PRC or elsewhere in the world could result in a

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widespread health crisis and restrict the level of business activities in affected areas, which may, in turn, materially and adversely affect our business, results of operations and financial condition.

Moreover, the PRC has experienced natural disasters such as earthquakes, floods and droughts in the past few years. Any future occurrence of severe natural disasters in the PRC may materially and adversely affect its economy and therefore our business. We cannot assure that any future occurrence of natural disasters or outbreaks of epidemics and contagious diseases, or the measures taken by the PRC government in response to such contagious diseases, will not seriously disrupt our operations or those of our clients, which may materially and adversely affect our business, results of operations and financial condition.

**Any severe or prolonged slowdown in the global or Chinese economy may adversely affect our business, results of operations and financial condition.**

COVID-19 had a severe and negative impact on the Chinese and the global economy in the first quarter of 2020. Whether this will lead to a prolonged downturn in the economy is still unknown. Even before the outbreak of COVID-19, the global macroeconomic environment was facing numerous challenges. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies which had been adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and the PRC, even before 2020. Unrest, terrorist threats and the potential for war in the Middle East and elsewhere may increase market volatility across the globe. There have also been concerns about the relationship between the PRC and other countries, including the surrounding Asian countries, which may potentially have economic effects. Economic conditions in the PRC are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in the PRC. Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations and financial condition.

**We may be required by relevant government authorities to contribute additional social insurance premium or housing provident funds, or be imposed of late payment fees or fines.**

We make social insurance and housing provident fund contributions for our employees.

During the Track Record Period, we did not make full contributions to social insurance and housing provident funds for some of our employees primarily due to the fact that some of our employees chose not to make the contribution based on their actual income, as they did not want to bear their heavy portion of the contribution. For details, please refer to the paragraph headed "Business — Legal proceedings and non-compliance" in this [REDACTED].

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During the Track Record Period, we also engaged third party agents as part of our administrative arrangements to assist with social insurance and housing provident funds' registration and payments. According to our PRC Legal Advisor, the administrative arrangements in engaging third party agents to assist with registration and payments of social insurance and housing provident funds are not in strict compliance with the relevant PRC laws and regulations since the obligation to make such contributions shall rest on our Company and should not be delegated to third party agents. Therefore, we may still be considered as not having discharged our legal obligations under the relevant PRC laws and regulations as such contributions should have been made by ourselves.

Pursuant to the relevant PRC laws and regulations, employers who do not make full contributions on time to social insurance and housing provident funds may be subject to payment orders or penalties. An employer who has underpaid and/or failed to pay on time in respect of social insurance may be ordered by the relevant government authorities to make full payment of the outstanding amount within a prescribed time limit, together with a surcharge for late payment at the rate of 0.05% per day from the date on which the outstanding amounts become due. If we fail to make payments of the outstanding amount within the prescribed time limit, we may also be liable to a fine of up to three times the outstanding amount. For details, please refer to the paragraph headed "Business — Legal proceedings and non-compliance" in this [REDACTED].

As at the Latest Practicable Date, neither our Company nor the Consolidated Affiliated Entities had been subject to any penalty or action for the under-contribution or the engagement of third party agents in relation to the payment of social insurance and housing provident funds. We cannot assure that the relevant local government authorities will not require us to pay the outstanding amount within a specified time limit or impose late fees or fines on us, which may materially and adversely affect our business, results of operations and financial condition.

**We may not have sufficient insurance coverage to cover our potential liability or losses and as a result, our business, results of operations and financial condition may be materially and adversely affected should any such liability or losses arise.**

We face various risks in connection with our business and may lack adequate insurance coverage or have no relevant insurance coverage. Further, insurance companies in the PRC do not currently offer as extensive an array of insurance services as insurance companies in other more developed economies. As at the Latest Practicable Date, we had not had any business liability or disruption insurance to cover our operations. We have determined that the costs of insuring against these risks, and the difficulties associated with acquiring such insurances on commercially reasonable terms render these insurances, is impractical for our business and purposes. However, any uninsured business disruptions may result us in incurring substantial costs and the diversion of resources, which could have an adverse effect on our business, results of operations and financial condition.

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**We may be liable for failure to register and file our lease agreements, which may subject us to penalties.**

As at the Latest Practicable Date, 15 leasing agreements of our leased properties had not been registered and filed with the local branch of the relevant property administrative authorities within the time limit prescribed as required by the Administrative Measures for Commodity House Leasing. We cannot assure that the lessors will cooperate and complete the registration in a timely manner. As advised by our PRC Legal Advisor, failure to complete the registration and filing of lease agreements will not directly affect the legality, validity and enforceability of such leases but could result in the imposition of fines up to RMB10,000 for each unregistered lease if we fail to rectify within the time prescribed. For details, please refer to the paragraph headed "Business — Properties" in this [REDACTED].

**We may be unable to obtain any additional capital required in a timely manner or on acceptable terms, or at all. Further, our future capital needs may require us to sell additional equity or debt securities that may dilute our Shareholders' shareholdings or introduce covenants that may restrict our operations or our ability to pay dividends.**

To grow our business and remain competitive, we may require additional capital from time to time for our daily operations. Our ability to obtain additional capital is subject to a variety of uncertainties, including:

- our market position and competitiveness in the industries in which we operate;
- our future profitability, overall financial condition, results of operations and cash flows;
- general market conditions for capital-raising activities by our competitors or other intelligent CRM services providers in the PRC; and
- economic, political and other conditions in the PRC and internationally.

We may be unable to obtain additional capital in a timely manner or on acceptable terms, or at all. In addition, our future capital or other business needs could require us to sell additional equity or debt securities, or to obtain a credit facility. The sale of additional equity or equity-linked securities could dilute our Shareholders' shareholdings. Any incurrence of indebtedness will also lead to increased debt service obligations and could result in operating and financing covenants that may restrict our operations or our ability to pay dividends to our Shareholders.

**We might be subject to the risks associated with international trade policies, geopolitics and trade protection measures, and our business, financial condition and results of operations could be adversely affected.**

Trade restrictions that may be imposed by other jurisdictions may be difficult or costly to comply with and may materially and adversely affect our abilities to acquire technologies or components that may be critical to our service offerings and business operations.

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On 15 May 2019, the Department of Commerce's Bureau of Industry and Security ("BIS") has added, among others, one of our clients (the "Client") to its entity list (the "Entity List"). The addition of the Client to the Entity List imposed a license requirement on the listed entities supplemental to those found elsewhere in the Export Administration Regulations ("EAR"), and that the export, reexport, or transfer (in-country) of any item subject to the EAR to the Client now requires a license unless the activity is authorised pursuant to the Entity List rule's savings clause. Further in November 2020, former President of the U.S., Donald Trump, issued an executive order prohibiting any U.S. company from owning shares in companies that the U.S. Department of Defense has listed as having links to the People's Liberation Army, which included the Client.

Given we do not have operations in the U.S. and does not export any products, services or technology to the U.S., our business relationship with the Client is not likely to trigger any restrictive measures imposed by the U.S. import laws and regulations. However, our relationships with our clients or suppliers may evolve or have changes in the future, and there can be no assurance that we will maintain our access to all items that are necessary to our business, which may result in significant interruptions of our business.

### RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

**If the PRC government finds that the agreements that establish the structure for operating our operations in the PRC do not comply with applicable PRC regulations, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe consequences, including the nullification of the contractual arrangements and being forced to relinquish our interests in those operations.**

Foreign ownership in entities that provide value-added telecommunication and other related businesses, is subject to restrictions under current PRC laws and regulations, unless certain exceptions are available.

We are a company incorporated in the Cayman Islands. Accordingly, we and the Consolidated Affiliated Entities providing value-added telecommunication business are subject to foreign ownership restriction under PRC laws. To ensure compliance with the PRC laws and regulations, we conduct our business in the PRC through the Consolidated Affiliated Entities incorporated in the PRC. We have entered into the Contractual Arrangements with Xuan Wu, through which we obtain effective control of the Consolidated Affiliated Entities and substantially the economic benefits arising from the Consolidated Affiliated Entities and are able to consolidate the financial results of the Consolidated Affiliated Entities in our results of operations.

In the opinion of our PRC Legal Advisor, Zhong Lun Law Firm, (1) the ownership structures of Xuantao and the Contractual Arrangements in the PRC, both currently and immediately after the [REDACTED], are not and will not in any violation of the applicable PRC laws or regulations currently in effect; and (2) the Contractual Arrangements among Xuantao, Xuan Wu and its subsidiaries and its shareholders governed by PRC laws and regulations are currently valid, binding and enforceable, and

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will not result in any violation of the applicable PRC laws or regulations currently in effect, except that the pledges on the shareholders' equity interest in Xuan Wu would not be deemed validly created until they are registered with the relevant local branch of SAMR. However, we have been further advised by our PRC Legal Advisor that there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. Thus, the PRC government may ultimately take a view contrary to or otherwise different from the opinion of our PRC Legal Advisor. If the PRC government otherwise find that we are in violation of any existing or future PRC laws or regulations or lack the necessary permits or licences to operate our business, the relevant governmental authorities would have broad discretion in dealing with such violation, including, without limitation:

- revoking the business and operating licences of our Consolidated Affiliated Entities;
- discontinuing or restricting any related-party transactions between our Company and our affiliated entities;
- imposing fines and penalties, confiscating the income from our Company, or imposing additional requirements for our operations which we may not be able to comply with;
- requiring us to restructure our ownership structure or operations, including terminating the contractual arrangements and deregistering the pledge of the shares of Xuan Wu, which in turn would affect our ability to consolidate, derive economic interests from, or exercise effective control over the Consolidated Affiliated Entities;
- restricting or prohibiting our [REDACTED] of this [REDACTED] to finance our business and operations in the PRC, particularly the expansion of our business through strategic acquisitions; or
- restricting the use of financing sources by us or the Consolidated Affiliated Entities or otherwise restricting our or their ability to conduct business.

Furthermore, any of the assets under the name of any record holder of equity interest in a material Consolidated Affiliated Entity, including such equity interest, may be put under court custody in connection with litigation, arbitration or other judicial or dispute resolution proceedings against that record holder. We cannot be certain that the equity interest will be disposed of in accordance with the contractual arrangements. In addition, new PRC laws, rules and regulations may be introduced to impose additional requirements that may impose additional challenges to our corporate structure and contractual arrangements. The occurrence of any of these events or the imposition of any of these penalties may result in a material and adverse effect on our ability to provide intelligent CRM services. In addition, if the imposition of any of these penalties causes us to be unable to direct the activities of a Consolidated Affiliated Entity and its respective subsidiaries or the right to receive their economic benefits, we would no longer be able to consolidate such a Consolidated Affiliated Entity into our financial statements, which

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could materially and adversely affect our business, results of operations and financial condition. In this case, we may also face the risk that the Stock Exchange may consider our Company to be no longer suitable for [REDACTED] and consequently [REDACTED] our Shares.

**Our contractual arrangements may not be as effective in providing operational control as direct ownership. Any failure by any Consolidated Affiliated Entity or its shareholders to perform the obligations under the Contractual Arrangements would have a material adverse effect on our business, results of operations and financial condition.**

We operate all of our business in the PRC through our Consolidated Affiliated Entities, in which we have no ownership interest and rely on a series of contractual arrangements with Xuan Wu to control and operate these businesses. All of our revenue and cash flow from our business are attributed to our Consolidated Affiliated Entities. The Contractual Arrangements may not be as effective as direct ownership in providing us with control over our Consolidated Affiliated Entities. Direct ownership would allow us, for example, to directly or indirectly exercise our rights as a shareholder to effect changes in the boards of directors of our Consolidated Affiliated Entities, which in turn could effect changes, subject to any applicable fiduciary obligations at the management level. However, under the Contractual Arrangements, as a legal matter, if our Consolidated Affiliated Entities or their respective equity holders fail to perform their respective obligations under the contractual arrangements, we may have to (i) incur substantial costs, (ii) expend significant resources to enforce those arrangements, and (iii) resort to litigation or arbitration and rely on legal remedies under PRC laws. These remedies may include seeking specific performance or injunctive relief and claiming damages, any of which may not be effective. In the event 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 our Consolidated Affiliated Entities and may lose control over the assets owned by our Consolidated Affiliated Entities. As a result, we may be unable to consolidate our Consolidated Affiliated Entities in our consolidated financial statements, which could materially and adversely affect our business, results of operations and financial condition.

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

The shareholders of the Consolidated Affiliated Entities may have actual or potential conflicts of interest with us. These shareholders may breach, or cause the Consolidated Affiliated Entities to breach the Contractual Arrangements, which would have a material adverse effect on our ability to effectively control the Consolidated Affiliated Entities and receive economic benefits from them. We cannot assure that when conflicts of interest arise any or all of these shareholders will act in the best interests of our Company or such conflicts will be resolved in our favour. If we cannot resolve any conflict of interest or dispute between us and these shareholders, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainties as to the outcome of any such legal proceedings.

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**Substantial uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law and the Implementation Rules and how they may impact the viability of our current corporate structure, corporate governance and business operations.**

The Foreign Investment Law and its implementing regulations do not stipulate that the "foreign investment" as defined thereunder shall include contractual arrangement. There are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, at which time it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the Contractual Arrangements will be handled.

Therefore, there is no guarantee that the Contractual Arrangements and the business of the Consolidated Affiliated Entities will not be materially and adversely affected in the future due to changes in PRC laws and regulations. If future laws, administrative regulations or provisions prescribed by the State Council mandate further actions to be completed by the Consolidated Affiliated Entities, we may face substantial uncertainties as to the timely completion of such actions. In the extreme case scenario, we may be required to unwind the Contractual Arrangements and/or dispose of the Consolidated Affiliated Entities.

For details of the Foreign Investment Law, please refer to the paragraph headed "Contractual Arrangements — Development in the PRC legislation on foreign investment" in this [REDACTED].

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

Under applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. The tax authorities may impose reasonable adjustments on taxation if they have identified any related party transactions that are inconsistent with arm's length principles. We could face material and adverse tax consequences if the PRC tax authorities determine that our contractual arrangements were not entered into on an arm's length basis in such a way as to result in an impermissible reduction in taxes under applicable PRC laws, rules and regulations, and adjust income of our affiliated entities in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction of expense deductions recorded by our affiliated entities for PRC tax purposes, which could in turn increase its tax liabilities. In addition, if Xuantaos requests the Registered Shareholders to transfer their equity interests in Xuan Wu at nominal or no value pursuant to the Contractual Arrangements, such transfer could be viewed as a gift and subject Xuantaos to PRC income tax. Furthermore, the PRC tax authorities may impose late payment fees and other penalties on our affiliated entities for the adjusted but unpaid taxes according to the applicable regulations. Our business, results of operations and financial position could be materially and adversely affected if the tax liabilities of the Consolidated Affiliated Entities increase or if they are required to pay late payment fees and other penalties.



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**If we exercise the option to acquire equity ownership and assets of our Consolidated Affiliated Entities, the ownership or asset transfer may subject us to certain limitations and substantial costs.**

Pursuant to the Contractual Arrangements, Xuantaο or its designated person(s) has the exclusive right to purchase all or any part of the equity interests in Xuanwu held by the Registered Shareholders at a nominal price, unless relevant government authorities or PRC laws require that another amount should be used as the purchase price, in which case the purchase price shall be the lowest amount under such requirement. The equity transfer may be subject to the approvals from and filings with the MIIT, the SAIC and/or their local competent branches. In addition, the equity transfer price may be subject to review and tax adjustment by the relevant tax authority. The relevant tax amounts could be substantial.

### **RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC**

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

All of our revenue is derived from our businesses in the PRC. Accordingly, our business, results of operations and financial condition are, to a material extent, subject to economic, political, and legal developments in the PRC. The PRC economy differs from the economies of developed countries in many respects, including, among other things, the degree of government involvement, control of investment, level of economic development, growth rate, foreign exchange controls, and resource allocation.

Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy for the past four decades, a substantial portion of productive assets in the PRC is still owned by the PRC government. The PRC government also exercises significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC government has implemented measures emphasising the utilisation of market forces in economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance practices in business enterprises. Some of these measures benefit the overall PRC economy, but may adversely affect us.

For example, our financial condition and results of operations may be adversely affected by government policies on the intelligent CRM services industry in the PRC or changes in tax regulations applicable to us. If the business environment in the PRC deteriorates, our business in the PRC may also be materially and adversely affected.

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### **Uncertainties with respect to the PRC legal system could adversely affect our business, results of operations and financial condition.**

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

From time to time, we may have to resort to administrative and judicial proceedings to enforce our legal rights. However, since PRC judicial and administrative authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to predict the outcome of an administrative or judicial proceeding than in more developed legal systems.

Furthermore, the PRC legal system is based, in part, on government policies and internal rules, some of which are not published in a timely manner, or at all, but which may have retroactive effect. As a result, we may not always be aware of any potential violation of these policies and rules. These uncertainties may impede our contractual, property and procedural rights, which could adversely affect our business, results of operations and financial condition.

### **The successful operations of our business and our growth depend upon the internet infrastructure and telecommunication network in the PRC.**

Our business depends on the performance and reliability of the internet infrastructure in the PRC. Almost all access to the internet is maintained through state-owned telecommunication network operators under the administrative control and regulatory supervision of the MIIT. In addition, the national networks in the PRC are connected to the internet through state-owned international gateways, which are the only channels through which a domestic user can connect to the internet outside of the PRC. We may not have access to alternative networks in the event of disruptions, failures or other problems with the internet infrastructure in the PRC. In addition, the internet infrastructure in the PRC may not support the demands associated with continued growth in internet usage.

The failure of telecommunications network operators to provide us with the requisite bandwidth could also interfere with the speed and availability of our communication-based solutions. We have no control over the costs of the services provided by the national telecommunications operators. If the prices that we pay for telecommunications and internet services rise significantly, our business, results of operations and financial condition could be adversely affected.

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**We may be classified as a "PRC resident enterprise" for PRC enterprise income tax purposes, which could result in unfavourable tax consequences to us and our Shareholders, and have a material adverse effect on our business, results of operations and financial condition.**

Under the EIT Law and its implementation rules, an enterprise established outside of the PRC with a "de facto management body" within the PRC is considered a resident enterprise, and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term "de facto management body" as the body that exercises full and substantial control over, and overall management of the business, productions, personnel, accounts and properties of an enterprise. In April 2009, the STA issued a circular, known as Circular 82, which provides certain specific criteria for determining whether the "de facto management body" of a PRC-controlled enterprise that is incorporated offshore is located in the PRC. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its "de facto management body" in the PRC, and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC, (ii) decisions relating to the enterprise's financial and human resource matters are made, or are subject to approval by organisations or personnel in the PRC, (iii) the enterprise's primary assets, accounting books, and records, company seals, and board and shareholder resolutions are located or maintained in the PRC, and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

However, the tax-resident status of an enterprise is subject to determination by the PRC tax authorities, and uncertainties remain with respect to the interpretation of the term "de facto management body". As substantially all of our management members are based in the PRC, it remains unclear how the tax residency rule will apply in our case. If the PRC tax authorities determine that our Company, or any of our subsidiaries outside of the PRC, is a PRC resident enterprise for PRC enterprise income tax purposes, then our Company or such subsidiary could be subject to PRC tax at a rate of 25% on its world-wide income. In addition, we will also be subject to PRC enterprise income tax reporting obligations. Moreover, if the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, gains realised on the sale or other disposition of our ordinary Shares may be subject to PRC tax, and dividends we pay may be subject to PRC withholding tax, at a rate of 10% in the case of non-PRC enterprises or 20% in the case of non-PRC individuals (in each case, subject to the provisions of any applicable tax treaty), if such gains or dividends are deemed to be from PRC sources. It is unclear whether non-PRC Shareholders of our Company would be able to obtain the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise.

**Fluctuations in exchange rates could result in foreign currency exchange losses.**

The value of the RMB against the Hong Kong dollar, the U.S. dollar and other currencies fluctuates, is subject to changes resulting from the PRC government's policies, and depends, to a large extent, on domestic and international economic and political developments, as well as supply and demand in the local market. It is difficult to predict

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how market forces or government policies may impact the exchange rate between the RMB and the Hong Kong dollar, the U.S. dollar or other currencies in the future. In addition, the People's Bank of the PRC regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rates, and to achieve policy goals. We are subject to the risk of volatility in future exchange rates and to the PRC government's controls on currency conversion.

The [REDACTED] from this [REDACTED] will be received in Hong Kong dollars. As a result, any appreciation of the Renminbi against the Hong Kong dollar may result in a decrease in the value of our [REDACTED] from the [REDACTED]. Conversely, any depreciation of the Renminbi may adversely affect the value of, and any dividends payable on, our Shares in a foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. Moreover, we are also currently required to obtain the SAFE's approval before converting significant sums of foreign currencies into Renminbi. All of these factors could materially and adversely affect our business, results of operations and financial condition, and could reduce the value of, and dividends payable on, the Shares in foreign currency terms.

### **The PRC government's control of foreign currency conversion may limit our foreign exchange transactions, including dividend payments on our Shares.**

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of the PRC. We receive substantially all of our net revenue in RMB. Under our current corporate structure, our Company in the Cayman Islands relies on dividend payments, indirectly from our PRC subsidiaries, to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. Therefore, our PRC subsidiaries are able to pay dividends in foreign currencies to us without prior approval from SAFE by complying with certain procedures under PRC foreign exchange regulation. However, approval from, or registration with, appropriate governmental authorities is required where RMB is to be converted into foreign currency and remitted out of the PRC to pay capital expenses, such as the repayment of loans denominated in foreign currencies.

The PRC government has imposed more restrictive foreign exchange policies, and stepped up scrutiny of major outbound capital movement. More restrictions and a substantial vetting process are in place by SAFE to regulate cross-border transactions falling under the capital account. The PRC government may, at its discretion, further restrict access to foreign currencies in the future for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders.

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**PRC regulation of loans to, and direct investments in, PRC entities by offshore holding companies may delay or prevent us from using the [REDACTED] of the [REDACTED] to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity, and our ability to fund and expand our business.**

We may transfer funds to our PRC subsidiaries or finance our PRC subsidiaries by means of shareholders' loans or capital contributions, or to our Consolidated Affiliated Entities and their subsidiaries by means of loans, after completion of [REDACTED] and the [REDACTED]. Any loans to our PRC subsidiaries, Consolidated Affiliated Entities or their subsidiaries cannot exceed a statutory limit, and shall be filed with SAFE or its local counterparts, and if such loan is with a term of more than one year, must be recorded and registered with the NDRC or its local branches. In addition, any capital contributions we make to our PRC subsidiaries shall be filed with MOFCOM or its local counterparts via the online information reporting system and registered with the SAMR or its local branches. We may not be able to complete these government filings on a timely basis, if at all. If we fail to complete such filings, our ability to provide loans or capital contributions to our PRC subsidiaries in a timely manner may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

In March 2015, SAFE promulgated SAFE Circular 19, which took effective and replaced SAFE Circular 142 from 1 June 2015. On 9 June 2016, SAFE promulgated SAFE Circular 16. SAFE Circular 19 and SAFE Circular 16 removed certain restrictions previously provided under SAFE Circular 142 on the conversion by a foreign-invested enterprise of its capital denominated in foreign currency into Renminbi and the use of such Renminbi and allowed foreign invested enterprises to settle their foreign currency-denominated capital at their discretion based on actual needs of their business operations. However, SAFE Circular 19 and SAFE Circular 16 continue to prohibit foreign-invested enterprises from, among other things, using Renminbi fund converted from its foreign exchange capital for expenditure beyond its business scope, or providing loans to non-associated enterprises. In addition, neither SAFE Circular 19 nor SAFE Circular 16 clarifies whether a foreign-invested enterprise whose business scope does not include equity investment or similar activities may use Renminbi converted from the foreign currency-denominated capital for equity investments in the PRC. On 23 October 2019, the SAFE issued SAFE Circular 28, which expressly allows foreign-invested enterprises that do not have equity investments in their approved business scope to use their capital obtained from foreign exchange settlement to make domestic equity investments as long as there is a truthful investment and such investment is in compliance with the foreign investment-related laws and regulations. If our Consolidated Affiliated Entities require financial support from us or our PRC subsidiaries in the future, and we find it necessary to use foreign currency-denominated capital to provide such financial support, our ability to fund our Consolidated Affiliated Entities' operations will be subject to statutory limits and restrictions, including those described above. The applicable foreign exchange circulars and rules may limit our ability to transfer the [REDACTED] from this [REDACTED] to our PRC subsidiaries and convert the [REDACTED] into Renminbi, which may adversely affect our business, results of operations and financial condition.

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**There is uncertainty with respect to the indirect transfers of equity interests in our PRC resident enterprises through transfers made by our Shareholders or our non-PRC holding companies.**

On 3 February 2015, the STA promulgated the Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (“**Circular 7**”), which provides comprehensive guidelines relating to, and has also heightened the Chinese tax authorities’ scrutiny over, indirect transfers by a non-resident enterprise of assets (including equity interests) of a Chinese resident enterprise (the “**Chinese Taxable Assets**”). For example, Circular 7 states that where a non-resident enterprise transfers Chinese Taxable Assets indirectly, by disposing of equity interests in an overseas holding company directly or indirectly holding such Chinese Taxable Assets, and such transfer is deemed to be, for the purpose of avoiding EIT payment obligations, and without any other bona fide commercial purpose, the transfer may be reclassified by the Chinese tax authorities as a direct transfer of Chinese Taxable Assets. Circular 7 also introduced safe harbours for internal group restructurings and the purchase and sale of equity interests through a public securities market. On 17 October 2017, the STA promulgated the Announcement on Matters Concerning Withholding and Payment of Income Tax of Non-resident Enterprises from Source (關於非居民企業所得稅源泉扣繳有關問題的公告) (“**STA Circular 37**”), which came into force on 1 December 2017. STA Circular 37, among other things, simplifies the procedures of withholding and payment of income tax levied on non-resident enterprises.

Although Circular 7 contains certain exemptions, it is unclear whether any exemptions under Circular 7 will be applicable to the transfer of our Shares, such as purchasing our Shares in the open market, and selling them in a private transaction, or vice versa, or to any future acquisition by us outside of the PRC involving Chinese Taxable Assets, or whether the Chinese tax authorities classify such transactions by applying Circular 7. Therefore, the Chinese tax authorities may deem any transfer of our Shares by those of our Shareholders that are non-resident enterprises, or any future acquisitions by us outside of the PRC involving Chinese Taxable Assets, to be subject to the foregoing regulations, which may subject our Shareholders or us to additional Chinese tax reporting obligations or tax liabilities. In addition, if we fail to comply with Circular 7 and STA Circular 37, the Chinese tax authorities may take action, including requesting us to provide assistance in their investigation, or may impose a penalty on us, which could have a negative impact on our business, results of operations and financial condition.

**We may be subject to penalties, including restriction on our ability to inject capital into our PRC subsidiaries, and on our PRC subsidiaries’ ability to distribute profits to us, if our PRC resident Shareholders or beneficial owners fail to comply with relevant PRC foreign exchange regulations.**

The SAFE has promulgated several regulations that require PRC residents and PRC corporate entities to register with, and obtain approval from, local branches of the SAFE in connection with their direct or indirect offshore investment activities. The Circular 37, was promulgated by the SAFE in July 2014, requiring PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an

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offshore entity established for the purpose of overseas investment or financing. These regulations apply to our Shareholders who are PRC residents, and may apply to any offshore acquisitions that we make in the future.

Under these foreign exchange regulations, PRC residents who make, or have previously made, prior to the implementation of these foreign exchange regulations, direct or indirect investments in offshore companies, are required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to update the previously filed registration with the local branch of the SAFE, with respect to that offshore company, to reflect any material change involving its round-trip investment, capital variation, such as a change of PRC shareholders, the name of a company, terms of operation, an increase or decrease in capital, transfer or swap of shares, merger or division. If any PRC shareholder fails to make the required registration or to update the previously filed registration, the PRC subsidiary of that offshore parent company may be restricted from distributing its profits, and the proceeds from any reduction in capital, share transfer or liquidation to its offshore parent company, and the offshore parent company may also be restricted from injecting additional capital into its PRC subsidiary. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions, including (i) the requirement by the SAFE to return the foreign exchange remitted overseas or into PRC within a period of time specified by the SAFE, with a fine of up to 30% of the total amount of foreign exchange remitted overseas or into PRC and deemed to have been evasive or illegal, and (ii) in circumstances involving serious violations, a fine of no less than 30% of and up to the total amount of remitted foreign exchange deemed evasive or illegal.

We are committed to complying with, and to ensuring that our Shareholders who are subject to the regulations will comply with, the relevant SAFE rules and regulations. However, due to the inherent uncertainty in the implementation of the regulatory requirements by PRC authorities, such registration might not be always practically available in all circumstances as prescribed in those regulations. In addition, we may not always be able to compel them to comply with the Circular 37 or other related regulations. We cannot assure that the SAFE or its local branches will release explicit requirements or interpret the relevant PRC laws and regulations otherwise. Failure by any such Shareholders to comply with the Circular 37 or other related regulations could subject us to fines or legal sanctions, restrict our investment activities in the PRC and overseas, or our cross-border investment activities, limit our subsidiaries' ability to make distributions, pay dividends or make other payments to us, or affect our ownership structure, which could adversely affect our business and prospects. As at the Latest Practicable Date, all of our beneficial owners who are PRC citizens, have completed their registration under the Circular 37. However, we may not be fully informed of the identities of all our Shareholders or beneficial owners who are PRC residents, and we cannot assure that all of our Shareholders and beneficial owners who are PRC residents will comply with our request to make, obtain or update, any applicable registrations, or comply with other requirements under the Circular 37 or other related rules in a timely manner.

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As there is uncertainty concerning the reconciliation of these foreign exchange regulations with other approval requirements, it is unclear how these regulations, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant governmental authorities. We cannot predict how these regulations will affect our business operations or future strategy. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign currency-denominated borrowings, which may adversely affect our results of operations and financial condition. In addition, if we decide to acquire a PRC domestic company, we cannot assure that we, or the owners of such company, as the case may be, will be able to obtain the necessary approvals, or complete the necessary filings and registrations, required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy, and could adversely affect our business and results of operations.

**Any requirement to obtain approval from the MOFCOM or the CSRC could delay the [REDACTED], and any failure to obtain such approval, if required, could materially and adversely affect our business, operating results and financial condition, as well as the [REDACTED] price of our Shares.**

According to the M&A Rules jointly issued by the MOFCOM, the SASAC, the STA, the CSRC, SAIC, and the SAFE on 8 August 2006, effective on 8 September 2006 and amended on 22 June 2009, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise, (ii) subscribes for the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise, (iii) establishes a foreign-invested enterprise to purchase the assets of a domestic enterprise and operate those assets, or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. Where a domestic company or enterprise, or a domestic natural person, through an offshore entity established or controlled by it or him, acquires a domestic company which is related to or connected with it or him, approval from MOFCOM is required. The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for [REDACTED] purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the [REDACTED] and trading of such special purpose vehicle's securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires shares of, or equity in, the PRC companies in exchange for the shares of offshore companies. Our PRC Legal Advisor is of the opinion that the M&A Rules are not applicable because there occurs no equity or asset acquisition by the foreign investor during the Reorganisation. Accordingly, our PRC Legal Advisor is of the opinion that prior MOFCOM and CSRC approval under the M&A Rules for this [REDACTED] is not required. However, we cannot assure that the relevant PRC government agency, including the MOFCOM and CSRC, would reach the same conclusion as our PRC Legal Advisor. If the MOFCOM, the CSRC or other PRC regulatory agencies subsequently determine that we need to obtain necessary approval for this [REDACTED], or if MOFCOM, CSRC or any other PRC government authorities promulgates interpretation or implementing rules before our [REDACTED] that would require any necessary governmental approvals for this [REDACTED], we may face sanctions by the MOFCOM, the CSRC or other PRC



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regulatory agencies. In such event, these regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of [REDACTED] from this [REDACTED] into the PRC, or take other actions that could have a material adverse effect on our business, results of operations and financial condition, as well as the [REDACTED] price of our Shares. The MOFCOM, the CSRC or other PRC regulatory agencies may also take actions requiring us to halt this [REDACTED] before settlement and delivery of the Shares [REDACTED] by this [REDACTED].

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

The Circular 37 stipulates that PRC residents who participate in a share incentive plan of an overseas non-publicly-listed special purpose company may register with SAFE or its local branches before they exercise the share options. We and our PRC employees who have been granted restricted shares are subject to the Circular 37. Failure of our PRC restricted Shareholders to complete their SAFE registrations may subject these PRC residents to fines of up to RMB300,000 for entities and up to RMB50,000 for individuals, and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiary, limit our PRC subsidiary's ability to distribute dividends to us, or otherwise materially adversely affect our business.

The STA has also issued relevant rules and regulations concerning employee share incentives. Under these rules and regulations, our employees working in the PRC will be subject to PRC individual income tax upon exercise of the share options or grant of the restricted shares. Our PRC subsidiaries have obligations to file documents with respect to the granted share options or restricted shares with relevant tax authorities and to withhold individual income taxes for their employees upon exercise of the share options or grant of the restricted shares. If our employees fail to pay, or we fail to withhold, their individual income taxes according to relevant rules and regulations, we may face sanctions imposed by the competent governmental authorities.

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

We are an exempted company incorporated in the Cayman Islands, and substantially all of our current operations are conducted in the PRC. In addition, a majority of our current Directors and officers are nationals and residents of the PRC. As a result, it may be difficult or impossible for an investor to effect service of process within Hong Kong upon us or these persons, or to bring an action in Hong Kong against us or against these individuals in the event that the investor believes that his rights have been infringed under the applicable securities laws or otherwise. In addition, as there are no clear statutory and judicial interpretations or guidance on a PRC court's jurisdiction over cases brought under foreign securities laws, it may be difficult for an investor to bring an original action against us or our PRC resident officers and Directors in a PRC court based on the liability provisions of non-PRC securities laws. Even if an investor is successful in bringing an action of this kind, the laws of the Cayman Islands and of the PRC may render that investor unable to enforce a judgment against our assets or the assets of our Directors and officers.

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### RISKS RELATING TO THIS [REDACTED]

**There has been no prior public market for the Shares and the liquidity, market price and trading volume of the Share may be volatile.**

There has not been a public market for our Shares prior to the [REDACTED]. There is no assurance that there will be an active trading market for our Shares on the Stock Exchange upon the [REDACTED]. In addition, the market price of our Shares to be traded on the Stock Exchange may differ from the [REDACTED] and prospective investors should not treat the [REDACTED] as an indicator of the market price of our Shares to be traded on the Stock Exchange.

Upon the [REDACTED], the trading volume and the market price of our Shares may be affected or influenced by a number of factors from time to time, including but not limited to, our revenue, profit and cash flow, acquisitions, strategic partnerships, joint ventures or capital commitments, changes in our management and general market conditions or other developments affecting us or our industry. There is no assurance that such factors will not occur and it is difficult to quantify their impact on the trading volume and the market price of our Shares. As a result, investors in our Shares may experience volatility in the market price of the Shares and a decrease in the value of the Shares, regardless of our operating performance or prospects.

In addition, the following factors may cause the market price of our Shares following the [REDACTED] to vary significantly from the [REDACTED]: (i) variation in our turnover, earnings and cash flow; (ii) liability claims brought against us based on, for example, defective solutions; (iii) our failure to execute our business strategies; (iv) any unexpected business interruptions resulting from operational breakdowns or natural disasters; (v) inadequate protection of our intellectual property or legal proceedings brought against us for infringement of third parties' intellectual property rights; (vi) any major changes in our key personnel or senior management; (vii) our inability to obtain or maintain regulatory approval for our services; and (viii) political, economic, financial and social developments.

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

The [REDACTED] will be determined on the [REDACTED]. However, the [REDACTED] will not commence trading on the Stock Exchange until they are delivered. As a result, investors might not be able to sell or otherwise [REDACTED] the [REDACTED] during that period. Accordingly, holders of the [REDACTED] are subject to the risk that the price of the [REDACTED] when trading begins may be lower than the [REDACTED] as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time trading begins.

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### **Investors may experience dilution if our Group issues additional Shares in the future.**

Our Group may need to raise additional funds in the future to finance business expansion, new development and acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to the existing Shareholders, the shareholding of such Shareholders in our Company may be reduced or such new securities may confer rights and privileges that take priority over those conferred by the [REDACTED].

### **Future sales or a major divestment of Shares by our Controlling Shareholders after the [REDACTED] could adversely affect the prevailing market price of the Shares.**

The Shares beneficially owned by our Controlling Shareholders are subject to certain lockup periods, details of which are referred to in the paragraphs headed "[REDACTED] — [REDACTED] — Undertakings given to the Stock Exchange pursuant to the Listing Rules — Undertakings by our Controlling Shareholders" and "[REDACTED] — Undertakings pursuant to the [REDACTED] — Undertakings by our Controlling Shareholders" in this [REDACTED]. We cannot guarantee that our Controlling Shareholders will not dispose of our Shares following the expiration of their respective lock-up periods after the [REDACTED] Date. Our Group cannot predict the effect, if any, of any future disposal of Shares by any of our Controlling Shareholders, or that the Shares held by our Controlling Shareholders are available for purchase in the market may have on the market price of our Shares. Future sales, disposals, or other transfers of a substantial number of our Shares by our Controlling Shareholders in public market, or any prospects or possibilities of such sales, disposals or other transfers, as to or against which the holders of our Shares may or may not have a right to vote or veto, could adversely impact the market price of our Shares and our ability to raise equity capital in the future at a time and price that we deem appropriate.

### **Prospective investors should read the entire document carefully, and we strongly caution prospective investors not to place any reliance on any information contained in press articles or other media regarding us or the [REDACTED].**

There may be, subsequent to the date of this [REDACTED] but prior to the completion of [REDACTED] and the [REDACTED], press and media coverage regarding us and the [REDACTED], which may contain, among other things, certain financial information, projections, valuations and other forward-looking information about us and the [REDACTED]. We have not authorised the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this [REDACTED], we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this [REDACTED] only and should not rely on any other information.