You should read the following discussion and analysis in conjunction with consolidated financial statements, including the notes thereto set out in "Appendix I – Accountants' Report" to this document and the selected historical financial information presented elsewhere in this document. Our consolidated financial statements were prepared in accordance with IFRS.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis that we make considering our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed in "Risk Factors," "Forward-Looking Statements" and elsewhere in this document.

OVERVIEW

We are a major office IT integrated solution provider in China, providing one-stop office IT services to enterprise customers consisting mainly of SMEs. We mainly compete in the office IT integrated solution market, a fast-growing segment whose penetration rate in the enterprise office IT service market increased from 0.3% in 2017 to 3.3% in 2021, and is expected to further grow to 16.9% in 2026. We had a market share of 0.6% in the enterprise office IT service industry in terms of revenue in 2021, according to Frost & Sullivan. According to the same source, in 2021, we ranked first in the office IT integrated solution industry in China in terms of revenue, number of devices under service, and remanufacturing capacity, respectively, with a market share of 19.6% by revenue.

During the Track Record Period, our revenue was generated from pay-as-you-go office IT integrated solutions, sales of devices, and SaaS and other services.

- **Pay-as-you-go office IT integrated solutions:** We provide our office IT integrated solutions primarily via the pay-as-you-go subscription method. The pay-as-you-go subscription method is a flexible arrangement through which we provide hardware and handle device configuration, device/engineer deployment, operation and maintenance support, performance optimization, and device management services, such as order placement, subscription management, on-site inspection and bulk shipment of the devices, all under one service pack while customers can subscribe and unsubscribe to the office IT service flexibly based on their evolving needs.

- **Sales of devices:** In addition to our pay-as-you-go office IT integrated solutions, we offer customers the opportunity to purchase our devices, in response to certain customers' needs. Customers can purchase the devices in installments, and the ownership of the devices are transferred to the customers when the devices are delivered to customers. In this case, the customers are also entitled to the same level of managed IT services as provided under our pay-as-you-go office IT integrated solutions until they obtain full ownership of the device. In addition, we may sell pre-owned devices at commercially favorable prices through our online bidding platform, Epaiji, to optimize our device portfolio, and supplement our revenue streams.

- **SaaS and other services:** We developed our SaaS product to meet customers' multiple digitalization needs. Our SaaS product, Epandian, is designed to help enterprise customers manage their assets and inventories from asset procurement and storage to usage and disposal for an annual subscription fee. Epandian allows customers to visualize and streamline assets and inventories operations and enables customers to track and manage portfolios of assets and inventories with transparency.

Our revenue increased by 45.6% from RMB813.1 million in 2020 to RMB1,183.7 million in 2021, further increased by 15.9% to RMB1,371.9 million in 2022. Our gross profit increased by 67.7% from RMB337.0 million in 2020 to RMB565.2 million in 2021, further increased by 10.8% to RMB626.5 million in 2022. Our gross profit margin expanded from 41.4% for the year ended December 31, 2020 to 47.7% for the year ended December 31, 2021, and decreased slightly to 45.7% in 2022. For the year ended December 31, 2020, our adjust net loss (non-IFRS measure) amounted to RMB44.5 million, respectively, while for the year ended December 31, 2021 and 2022, our adjusted net profit (non-IFRS measure) amounted to RMB93.5 million and RMB135.2 million, respectively. See "– Consolidated Statements of Profit or Loss – Non-IFRS measure – Adjusted Net Profit/(Loss)."

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to be, materially affected by a number of factors, many of which are outside of our control. These factors include but are not limited to the following:

General Factors

We derived a large portion of our revenue from the provision of pay-as-you-go office IT integrated solutions in the PRC during the Track Record Period. The demand for our pay-as-you-go office IT integrated solutions is closely related to the growth of enterprises that are the major users of office IT and the number of their IT users, which, in turn, largely depends on the employment rate and the general economic conditions in the PRC.

Our business and results of operations are also impacted by general factors affecting the broader enterprise IT service industry and the enterprise office IT service industry in China, including:

- the development of China's enterprise IT service market;
- SMEs' business growth, number of IT users, and spending on office IT and digital transformation;
- adoption and acceptance of usage-based mode, as compared to the direct buyout mode, of the enterprise office IT services in China;
- customers' perceived value of managed IT services; and
- government regulations, policies and initiatives affecting SMEs in China, generally or sectorally.

Any unfavorable change in any of these general industry conditions may have a negative impact on the demand for our products and services, and materially affect our results of operations.

Company Specific Factors

We believe that the following are the key factors affecting our results of operations.

Our ability to optimize customers' experience and upgrade our services to enhance customer stickiness and expand our customer base

With our service model evolving around customer life cycle, we have fostered a loyal and high-quality customer base over the years, which primarily includes SMEs from various industries. The number of our customers continuously increased during the Track Record Period. We believe that our financial growth is subject to our ability to continue optimizing customers' experience to enhance customer stickiness and grow our customer base to further increase subscription volume.

Our results of operations and continued revenue growth depend significantly on our ability to attract new customers and retain and cultivate relationships with existing ones. Such ability further hinges on our capability to continually address the pain points of our customers, which contributes to an enhanced customer experience and higher customer satisfaction. As of December 31, 2020, 2021, and 2022, respectively, we had approximately 29,000, 39,000 and 43,000 active customers. In 2020, 2021, and 2022, we had an NDRR of 110.6%, 128.5% and 101.6%, respectively. We experienced a decrease in NDRR in 2022 primarily because although our customers largely maintained business relationship with us, growth in demands from our customers was moderated during the same year, primarily in relation to such customers' lowered rate of business growth or even downsized workforce. In 2020, 2021 and 2022, we had a customer retention rate of 72%, 71% and 73%. These indicate high customer retention and rapid growth of new customer base.

We provide our services primarily with a pay-as-you-go subscription method offered to our customers, where our customers subscribe to our services for a flexible term with a monthly fee. They may also choose to subscribe for a longer term ranging from one year to three years in exchange for a discounted rate. Our revenue is recognized on a time-proportion basis over the service terms. Thus, our operating and financial performances are affected by the number of customers we acquire and the engagements between us and our customers. In addition, a large and expanding customer base provides an invaluable source of experience for us to better understand our customers' needs and preferences as well as application scenarios such as recruiting and training. Accordingly, we are able to further enrich the content of our service pack and explore more types of services such as SaaS to improve our customers' overall experience for continued expansion of our customer base. Continued expansion of our customer base may also help strengthen our brand and reputation within the enterprise office IT service industry, thereby attracting more potential customers for our subscription services and other services, which is pivotal to the success of our business and future growth.

Our ability to maintain an industry-leading remanufacturing capability and achieve long-term competitive advantages

Leveraging our proprietary remanufacturing technology, we can test, retrofit, upgrade and reset devices, or replace the specific device components that are the cause of failure, and therefore extend the service life of devices by, on average, two to three times their originally expected life span while maintaining their performance. With a prolonged life span, our devices can be utilized to support more customers' subscription cycles, thereby maximizing the value of devices throughout their service life and significantly reducing our depreciation cost, which in turn facilitates the increase of our gross profit margin and helps improve our long-term competitive cost advantages. For the years ended December 31, 2020, 2021, and 2022, the depreciation cost of devices provided under our pay-as-you-go office IT integrated solutions, including self-owned devices and leased-in devices, amounted to RMB209.4 million, RMB285.5 million and RMB370.0 million, representing 25.8%, 24.1% and 27.0% of our total revenue for the same periods, respectively. In addition, our strong remanufacturing ability enables us to conduct tests and repairs of electronic components down to chip-level. Leveraging our ability to perform chip-level repair and remanufacturing, our average cost of remanufacturing during the Track Record Period was less than RMB100 per device. This, in turn, increases our gross profit margin. For the years ended December 31, 2020, 2021 and 2022, our pay-as-you-go office IT integrated solutions achieved a gross profit margin of 48.5%, 54.1% and 55.0%, respectively.

Our ability to effectively manage our devices

During the Track Record Period, we derived a large portion of revenue from our pay-as-you-go office IT integrated solutions, which include both providing IT hardware devices to customers for use and ongoing operation services. As a result, our performance and future business expansion are subject to our ability to effectively manage our devices and to maintain the corresponding utilization. With the visualization function of our self-developed Nebula system, we are able to digitally manage our devices throughout the whole device life cycle and monitor the performances of devices in real time. With the performance statistics, we are able to procure, remanufacture, dispatch, use and sell devices on demand. We also dynamically adjust our procurement volume according to our actual needs. In addition, we may sell certain less popular types of in-stock devices from time to time. With our self-developed platform, Epaiji, we are able to sell our devices in a commercially favorable and efficient manner, which in turn lowers the volume of idle devices, and improves our device utilization and operational efficiency.

Our device management might face challenges if unanticipated changes occur in the PRC economy or if other events affect specific customers, industries or markets. Under such circumstances, the number of idle devices might increase and we may need to face delays and incur losses on the disposal of devices, which could significantly impact our profitability, financial condition, results of operations and growth prospects. For details of our policies to maintain the utilization for our major device, see "Business – Our Technology and Infrastructure – Our Digitalization Technology – Visualization System for Device."

Our ability to manage our costs and expenses and reach operational efficiencies

Our results of operations are affected by our ability to improve operational efficiency. For instance, our employee salaries and benefit expenses relating to sales and marketing personnel and administrative personnel form a significant portion of our selling and marketing expenses and general and administrative expenses. In this regard, our ability to enhance customer stickiness and grow our customer base, while at the same time controlling our customer acquisition-related costs and expenses, is important for our profit level and overall results of operations. During the Track Record Period, these expenses generally decreased as a percentage of our revenue due to achieving increasing economies of scale as our business continuously grew. Our selling and marketing expenses accounted for 14.6%, 15.3% and 12.0% of our revenue for the years ended December 31, 2020, 2021 and 2022, respectively. Our general and administrative expenses accounted for 13.6%, 6.6% and 7.7% of our revenue for the years ended December 31, 2020, 2021, and 2022, respectively.

In addition, besides managing our depreciation costs with our strong remanufacturing capability, we are also able to enjoy relatively more favorable prices due to our large-scale procurement of devices. Our ability to continue maintaining a low level of such costs will be important for our profitability and results of operations.

Our financing capabilities and our abilities to obtain funding resources

Our capabilities and sources of funding are important factors in determining the success of our business expansion. As our business operations require a significant amount of capital, we need adequate and timely sources of funding to maintain and further develop our business. Our major funding are mainly from our business operation and borrowings. As of December 31, 2020, 2021 and 2022 our borrowings amounted to RMB1.2 billion, RMB1.6 billion and RMB1.4 billion.

The level of our indebtedness and the amount of our interest payments could limit our ability to obtain the necessary additional financing or obtain favorable terms for the financing of future capital expenditures and working capital. The availability of funding directly affects our ability to expand our operations, while the cost of funding directly impacts our finance costs. For the years ended December 31, 2020, 2021 and 2022, our finance costs amounted to RMB95.3 million, RMB146.2 million and RMB169.6 million, respectively. For the year ended December 31, 2020, our net cash generated from financing activities amounted to RMB753.1 million. For the years ended December 31, 2021, and 2022, our net cash used in financing activities amounted to RMB47.1 million and RMB636.1 million.

As we do not rely on a single source of funding, we regularly adjust the level of our borrowings in accordance with our operational needs. During the Track Record Period, we were able to maintain our levels of total borrowings in step with the expansion of our business. After the [**REDACTED**], we expect to have better access to capital markets and thus enhanced funding capabilities. We will leverage the development of the enterprise office IT service market in the PRC to explore further financing options under appropriate market conditions where suitable opportunities arise. Our ability to continue accessing additional funding may be influenced by factors affecting the PRC and global credit environment over which we have no control, including fluctuations in capital markets, cyclical nature of credit availability from banks and other lenders, investor confidence and new requirements that affect our funding sources directly, as well as any changes in policies or regulations or new policies and regulations that impact these funding sources. Any developments in these factors would impact our business and profitability. See "Risk Factors – Our business requires a large amount of capital to finance the expansion of our operations. We have also maintained a relatively high level of indebtedness. Failure to manage our liquidity and cash flows or inability to obtain additional financing in the future could have a material adverse impact on our business, results of operations and financial condition."

Our asset security and risk management ability

Under our pay-as-you-go office IT integrated solutions, device usage is a part of customers' service packs and the majority of our devices under service are moveable properties. Most of the devices we provide to our customers are self-owned devices. We also acquire a portion of devices from third parties through finance leasing arrangements, where we have right of use but will not obtain ownership of the devices before completing the relevant finance leasing contracts. As of December 31, 2022, we owned devices with a total carrying amount of RMB1.5 billion, and obtained from third parties the right of use of devices with a carrying amount of RMB0.5 billion.

Our devices under service may be detained, damaged or lost by our customers, intentionally or unintentionally, and we may not be able to recover our devices from them at the end of service terms. Also, as these assets are under our customers' control, they may be involved in disputes between our customers and third parties such as the creditors of our customers, whether with or without fair grounds. In addition, we may have to write off such devices and recognize losses when there are indicators that the devices are not recoverable for accounting purposes. Therefore, our ability to effectively safeguard against such losses as well as our overall risk management capability would be pivotal to our business operations and profit level. See "Risk Factors – We have been and may be in the future involved in disputes arising from our operations, and the resulting customer complaints, regulatory actions and legal proceedings against us or our management and Directors may harm our reputation and have a material adverse impact on our business, financial condition, results of operations and prospects." Our loss on written-off of rental computer devices was RMB12.6 million, RMB6.8 million and RMB22.8 million, for the years ended December 31, 2020, 2021 and 2022, respectively, representing 1.0%, 0.4% and 1.6% of the total carrying amount of our self-owned rental computer devices as of December 31, 2020, 2021, and 2022, respectively.

Continuous innovation, expansion and diversification of our products and service offerings

With the advancement of internal operations of our customers, their needs in relation to office IT products and services also evolve. Continual innovation and development of our products and services, including the features and solutions we offer, are crucial for us to support our customers' development and to maintain our market position in the office IT integrated solution industry. We have invested, and will continue devoting significant resources in product and service development to enrich the content of our subscription services and explore further SaaS products to continually diversify our offerings and deliver a high-quality customer experience.

We continually seek to expand our product and service offerings through developing new formats of office IT integrated solutions and SaaS products to improve our customers' experience and cater to their evolving needs and requirements. As satisfied customers tend to upgrade their experience and pay for additional services, thereby contributing to our revenue growth and results of operations. Such innovation will require strengthened research and development capabilities. For the years ended December 31, 2020, 2021 and 2022, we incurred research and development expenses of RMB57.9 million, RMB62.1 million and RMB84.0 million, respectively. Going forward, we plan to continue investing in research and development to support the long-term growth of our business.

EFFECTS OF THE COVID-19 OUTBREAK ON OUR BUSINESS

Since the end of December 2019, the outbreak of COVID-19 has materially and adversely affected the Chinese and global economies.

In response to COVID-19, including the recent recurrence of COVID-19 around the end of 2021 in China, the PRC government has imposed mandatory quarantine, closure of workplaces and facilities, travel restriction and other related measures. These measures have caused a decline in business activities in a wide range of sectors, which in turn affect the demand in the office IT integrated solutions.

COVID-19 has caused temporary disruptions to our business operations, especially in office IT integrated solutions, and affected our financial performances. We have experienced a temporary decrease in service demand, primarily due to our customers' closures and reduced business activities during the COVID-19 outbreaks. Many customers, especially those from industries that require on-site or face-to-face operations like the retail industry and education industry, terminated their subscriptions due to a sharp decline in their business operations.

In addition, as our business operations require a significant amount of capital, we need adequate and timely sources of funding to maintain and further develop our business. Our major funding sources are mainly from our business operation and borrowings from financial institutions. During the COVID-19 pandemic, some financial institutions had longer internal approval processes for the release of funds, thereby affecting our cash inflow and liquidity positions.

Despite the temporary disruption caused by COVID-19, we were able to sustain our growth momentum and deliver robust revenue growth. During the COVID-19 outbreak, an increasing number of companies with demand of office IT integrated solutions opted for distributed workforce due to on-site work restrictions. With our nationwide service capability, we were able to provide stable and timely technical support to ensure the stability of our customers' daily operations during the pandemic outbreak. We also provide services through remote support within an optimal response time. Our on-site technicians can be dispatched to provide a convenient door-to-door service to our customers at their homes, offices or even hotels on demand. In this regard, we managed to satisfy customers' demands of office IT integrated solutions, including services provided outside office settings, such as remote help desk services, across the country effectively and efficiently, facilitating the growth of our customer base during the outbreak. As working from home has become more prevalent and preferable among companies with low demand for physical attendance and on-site collaboration, the demands for broad and flexible office IT integrated solutions that cover various stages throughout customer and device life cycles are expected to grow in the long run, which helps enlarge our operating scale and facilitate our future expansion. In addition, many companies became more risk averse and leaned towards more flexible subscription options in lieu of direct buyout modes, which in turn boosted the revenue growth of our pay-as-you-go office IT integrated solutions. Our revenue from pay-as-you-go office IT integrated solutions increased by 55.1%, from RMB643.3 million in 2020 to RMB997.9 million in 2021. As of December 31, 2020, 2021 and 2022, we had cash and cash equivalents of RMB725.4 million, RMB542.6 million and RMB505.8 million, respectively. We believe that the outbreak of COVID-19 did not have a material impact on our cash inflow and liquidity position. During the Track Record Period, none of our debt application was rejected by financial institutions due to the COVID-19 outbreak.

We undertook a series of measures in response to the outbreak to protect our employees, including, among others, temporary closure of our offices, remote working arrangements for our employees, and travel restrictions or suspension. These measures temporarily reduced the capacity and efficiency of our operations. We also provided our employees with masks, hand sanitizers and other protective devices immediately after the outbreak, which had increased and may continue to increase our operational and support costs. In addition, our business operations could be disrupted if any of our employees is suspected of contracting the COVID-19 or any other epidemiological disease, since our employees could be quarantined and/or our offices may have to be shut down for disinfection.

We believe that the COVID-19 pandemic did not have any material adverse impact on our business and results of operations, and it is not expected to bring any permanent or material interruption to our operations. The PRC government gradually eased restrictive measures on business and social activities in December 2022, and re-opened the borders in January, 2023. There had been a temporary rapid progression of COVID-19 during this time. We expect that we will experience recovery of economic environment and rebound of market demands considering the increase of offline activities.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES AND JUDGMENTS

We have identified certain accounting policies and estimates, which we consider significant in the preparation of our financial statements in accordance with IFRS. These significant accounting policies, set forth in note 4 to the Accountants' Report in Appendix I to this document, are important for an understanding of our financial condition and results of operations.

Some of our accounting policies involve subjective assumptions, estimates and judgments that are discussed in note 5 of the Accountants' Report in Appendix I to this document. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Significant Accounting Policies

Revenue from contracts with customers

We recognize revenue when (or as) a performance obligation is satisfied, for instance, when control of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by our performance as we perform it;

- our performance creates or enhances an asset that the customer controls as we perform it; or
- our performance does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

Our revenue from sale of devices is recognized at a point in time while revenue relating to the provision of software-as-a-service and other services is recognized overtime.

A contract liability represents our obligation to transfer goods or services to a customer for which we have received consideration (or an amount of consideration is due) from the customer.

Sale of devices

Revenue is recognized when control of the goods has transferred to the customer, being at the point the goods are delivered to the customer. Delivery occurs when the goods have been shipped to the customer's specific location. When the customer initially purchases the goods online, the transaction price received by us is recognized as contract liabilities until the goods have been delivered to the customer.

SaaS and other services

The performance obligation is satisfied over time as services are rendered and short-term advances are normally required before rendering the services. Services provided are for periods of one year or less, and are billed based on the time incurred.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. We assess pay-as-you-go office IT integrated solution contract as being or containing a lease based on the definition under IFRS 16 *Lease* at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

Our Group as a lessor

Classification and measurement of leases

Leases for which our Group as the lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Lease income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease.

Our contracts with customers for providing office IT integrated solution which contains hardware and service are within the scope of IFRS16 and all income earned and recognized as lease income and presented as revenue as it is derived from the our ordinary course of business.

Refundable rental deposits

Refundable rental deposits received are accounted for under IFRS 9 *Financial instruments* and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Sublease

When we are an intermediate lessor, the head lease and the sublease are accounted for as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not by reference to the underlying asset.

Our Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, we allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases

We apply the short-term lease recognition exemption to leases of buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by us; and
- an estimate of costs to be incurred by us in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets of which we are reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of their useful life. Otherwise, the right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

When we obtain ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the carrying amount of the relevant right-of-use assets are transferred to rental computer devices.

We present right-of-use assets as a separate line item on the consolidated statements of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, we recognize and measure the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, we use the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

We remeasure lease liabilities (and make a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment; or
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which case the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

We present lease liabilities as a separate line item on the consolidated statements of financial position.

Lease modifications

We account for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, we remeasure the lease liabilities, less any lease incentives receivable, based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

We account for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use assets.

Rental computer devices

Rental computer device is stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Rental computer devices are depreciated over the estimated useful life on a straight-line basis. For brand-new computer devices, the estimated useful life is generally seven years, for used computer devices the estimated useful life is three years.

The factors considered in determining the useful life of an asset include the expected usage of the asset, expected physical wear and tear, technical or commercial obsolescence and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets.

We estimate the useful life of rental computer devices based on the historical experience, including the consideration of the rental devices' expected capacity, the repair and maintenance program, the care and maintenance under our standardized remanufacturing process, the technology development on devices and legal limits on the use of the rental computer devices.

We expect that we can use brand-new devices to generate revenue with gross profit for at least seven years based on historical data and experience. For the used computer devices, leveraging our capability in remanufacturing and based on our historical experience, we expect that they can be utilized for three years before disposal.

During the Track Record Period, we have applied the straight-line depreciation method consistently for both brand-new computer devices and used computer devices, which is the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Based on the historical data and experience, the revenue generated by each computer device at different stage of its life is similar. Therefore, we believe that the straight-line depreciation reflects the expected pattern of consumption of the future economic benefits embodied in the rental computer devices.

We also estimate the residual value of the rental computer devices at the expected time of disposal. We make use of currently available market information, and the estimated residual values for rental computer devices are based on factors including model and age.

We make periodic adjustments to the depreciation rates of rental computer devices in response to the latest market conditions and their effect on residual values, as well as the estimated time of disposal. Such adjustments are accounted for as changes in accounting estimates. During the Track Record Period, rental computer devices was depreciated at rates ranging from 14.29% to 33.33% per annum. Rental computer devices are transferred to inventories at their carrying amount when they cease to be rented and become held for sale, as we routinely sell rental computer devices to others. When an item of rental computer devices is classified as held for sale, it is not depreciated and is accounted for as inventory.

Critical Accounting Judgments and Estimates

In the application of our Group's accounting policies, we are required to make judgment, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

We obtained control over Beijing Ediantao by entering into the Contractual Arrangements. Nevertheless, the Contractual Arrangements and other measures may not be as effective as direct legal ownership in providing us with direct control over Beijing Ediantao, and uncertainties presented by the PRC legal system could impede our beneficiary rights to the results, assets and liabilities of Beijing Ediantao. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements are in compliance with the relevant PRC Laws and are legally enforceable.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value of preferred shares, warrants and convertible bonds

We have issued a series of preferred shares, warrants and convertible bonds prior to and during the Track Record Period as set out in note 24 of the Accountants' Report in Appendix I to this document. We recorded these financial instruments as financial liabilities at FVTPL for which no quoted prices in an active market exist. The fair value of the financial instruments is established by using valuation techniques, which include discounted cash flow and equity allocation based on the Black-Scholes option pricing model involving various parameters and inputs to arrive at the fair value of the preferred shares, warrants and convertible bonds at the end of each Track Record Period. Valuation techniques are certified by an independent qualified professional valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. However, it should be noted that some inputs, such as fair value of the ordinary shares of the Company, possibilities under different scenarios, such as qualified listing, redemption, liquidation, and other inputs, including risk-free interest rate, expected volatility value and discount for lack of marketability, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions change, that may lead to a change in the fair value of the financial liabilities at FVTPL.

We have instituted internal policies on valuation methodologies, models and procedures for valuation of level 3 financial liabilities. We perform valuation assessments of preferred shares, warrants and convertible bonds. We have engaged an independent qualified professional valuer to perform the relevant valuation assessments. Our management team reviewed the external valuer's valuation analysis and results, and they have discussed the basis of the valuation with the Reporting Accountants. We focus on the valuation methodologies, computation basis, key assumptions, qualifications and underlying rationales in such assessments.

To ensure that the valuation methodologies adopted are appropriate to reflect accurately the economic substance, our management team also performs risk assessments on (i) the effectiveness of its valuation models to enhance the reasonableness and reliability of such models periodically, and (ii) any material adjustments to existing valuation models or the implementation of any new valuation models. Our management team supervises the internal controls and implementation of the valuation policies and gives recommendations for improvement. Based on the above procedures, we agree with the valuation work for financial liabilities categorized within level 3 of fair value measurement in the historical financial information for the purpose of the preparation of the Accountants' Report as referred to in Appendix I to this document.

The Reporting Accountants, Deloitte Touche Tohmatsu, have carried out their work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants for the purpose of expressing an opinion on our historical financial information for the Track Record Period as a whole. The Reporting Accountants' opinion on the Historical Financial Information of the Group for the Track Record Period as a whole is set out on page I-2 of Appendix I to this document.

In relation to our financial liabilities measured within level 3 fair value measurement, the Sole Sponsor has reviewed and understood the classification policy of financial liabilities into level 3 fair value measurement, and has further conducted relevant due diligence work, including but not limited to, (1) discussion with our Company about the rationale of the transactions and share issuance, and key basis and assumptions for the valuation; (2) review of transaction documents; and (3) discussion with the Reporting Accountants about their work performed in connection with the valuation of the Group's financial liabilities. Based on the due diligence work performed, nothing has come to the Sole Sponsor's attention that would cause the Sole Sponsor to question the valuation.

Provision of ECL for trade receivables

Trade receivables with significant balances and credit-impaired are assessed for ECL individually. In addition, we use practical expedients in estimating ECL on trade receivables which are assessed collectively using a provision matrix. The provision rates are based on aging of debtors through grouping of various debtors that have similar loss patterns, after considering internal credit ratings of trade debtors, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and forward-looking information that is available without undue cost or effort. At each reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

Except for debtors with significant outstanding balances and credit impairment which are assessed individually, our directors estimate the amount of lifetime ECL of trade receivables on a collective basis by using provision matrix through grouping of various debtors that have similar loss patterns, after considering ageing, internal credit ratings of trade debtors, repayment history and/or past due status of respective trade receivables. The proportion of impairment losses, net of reversal, recognized on trade receivables during the Track Record Period over the corresponding gross carrying amounts of trade receivables as of December 31, 2020, 2021 and 2022, was 14.4%, 10.5% and 15.8%, respectively.

Debtors with outstanding balances of RMB202.6 million, RMB257.8 million and RMB243.1 million as of December 31, 2020, 2021 and 2022, respectively, were assessed on a collective basis by using provision matrix by our credit management team, in which an aggregate carrying amount of RMB74.4 million, RMB90.0 million and RMB92.9 million, respectively, are 30 days past due. We have adopted a high average loss rate ranging from 27.9% to 98.6%, 34.7% to 99.9%, and 26.6% to 97.1% to these amounts as of December 31, 2020, 2021 and 2022, taking into account historical credit loss experience with reference to a valuation carried out by an independent qualified professional valuer.

The following table provides information about the exposure to credit risk for trade receivables which are assessed on a collective basis by using provision matrix as at December 31, 2020, 2021 and 2022. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and forward-looking information that is available without undue cost or effort. Our estimated loss rates for trade receivables as of December 31, 2022 increased compared with those as of December 31, 2021 primarily due to the adverse impact of Covid-19 pandemic, certain industry policy announced and volatility in financial market on their businesses. For certain credit impaired debtors with related trade receivables past due over 30 days, we assessed them individually and make relevant provisions. As the result, the estimated loss rates for trade receivables assessed collectively for time band of ageing more than 30 days as of December 31, 2022 decreased compared with those of the same time band as of December 31, 2021. As of December 31, 2022, trade receivables from debtors which had been previously assessed on a collectively basis were assessed individually and a total impairment loss of RMB79,255,000 was recognized individually during the year ended December 31, 2022, compared to that of RMB32,160,000 as of December 31, 2021.

As at December 31, 2020

Provision on collective basis	Within 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 270 days	271 to 360 days	Over 360 days	Total
Average loss rate	0.04%	27.86%	55.59%	80.63%	92.59%	98.32%	98.57%	29.66%
Gross carrying amount (RMB'000)	128,183	13,879	4,062	7,002	8,399	6,914	34,174	202,613
Loss allowance (RMB'000)	(54)	(3,866)	(2,258)	(5,646)	(7,777)	(6,798)	(33,687)	(60,086)

As at December 31, 2021

Provision on collective basis	Within 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 270 days	271 to 360 days	Over 360 days	Total
Average loss rate	0.07%	34.74%	64.22%	83.99%	86.37%	92.42%	99.86%	30.77%
Gross carrying amount (RMB'000)	167,816	9,985	4,161	9,568	5,973	4,778	55,552	257,833
Loss allowance (RMB'000)	(114)	(3,469)	(2,672)	(8,036)	(5,159)	(4,416)	(55,474)	(79,340)

As at December 31, 2022

Provision on collective basis	Within 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 270 days	271 to 360 days	Over 360 days	Total
Average loss rate	0.20%	26.57%	45.94%	61.27%	68.35%	76.71%	97.11%	33.03%
Gross carrying amount (RMB'000)	150,264	4,806	3,574	7,648	3,991	5,221	67,627	243,131
Loss allowance (RMB'000)	(305)	(1,277)	(1,642)	(4,686)	(2,728)	(4,005)	(65,670)	(80,313)

Debtors with outstanding balances of RMB21.0 million, RMB32.2 million and RMB79.3 million as of December 31, 2020, 2021 and 2022, respectively, were assessed individually by our credit management team from continuously monitoring. Our credit management team decides these debtors are 100% credit-impaired on various scenarios, such as: (i) the debtors have a possibility to be placed under liquidation as the debtors has been placed in abnormal registration status; (ii) the debtors come into poor operating condition and solvency; and (iii) we are defrauded by the counterparties who abused the debtor's business license, etc.

Deferred tax assets

As at December 31, 2020, 2021 and 2022, deferred tax assets of RMB7,923,000, RMB26,131,000 and RMB86,653,000, respectively in relation to unused tax losses and deductible temporary differences for certain subsidiaries have been recognized in the consolidated statements of financial position. The Group recognized the deferred tax asset to the extent that these entities would have sufficient taxable profit in the future. No deferred tax asset has been recognized in relation to unused tax losses amounting to RMB188,319,000, RMB185,220,000 and RMB81,050,000, and deductible temporary differences amounting to RMB81,688,000, RMB4,079,000 and RMB5,854,000 as at December 31, 2020, 2021 and 2022, respectively, due to the unpredictability of future profit streams. The realizability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a change takes place.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

The table below sets forth a summary of our consolidated statements of profit or loss for the years indicated:

	For the year ended December 31,					
	2020		2021		2022	
	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except for percentages)					
Revenue	813,148	100.0	1,183,749	100.0	1,371,889	100.0
Cost of sales	(476,103)	(58.6)	(618,527)	(52.3)	(745,346)	(54.3)
Gross profit	337,045	41.4	565,222	47.7	626,543	45.7
Selling and marketing expenses	(119,035)	(14.6)	(181,038)	(15.3)	(164,711)	(12.0)
Research and development expenses	(57,942)	(7.1)	(62,067)	(5.2)	(84,026)	(6.1)
General and administrative expenses	(110,329)	(13.6)	(78,196)	(6.6)	(106,093)	(7.7)
Other income	20,696	2.5	9,630	0.8	48,903	3.6
Other gains and losses, net	(49,263)	(6.1)	6,181	0.5	(15,886)	(1.2)
Gain/(loss) on changes in fair value of financial liabilities at fair value through profit or loss ("FVTPL")	18,609	2.3	(416,358)	(35.2)	(702,170)	(51.2)
Impairment losses under expected credit loss (the "ECL") model, net of reversal	(32,155)	(4.0)	(30,531)	(2.6)	(51,113)	(3.7)
[**REDACTED**] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Finance costs	(95,342)	(11.7)	(146,237)	(12.4)	(169,595)	(12.4)
Loss before tax	(87,716)	(10.9)	(351,023)	(29.8)	(646,265)	(47.1)
Income tax (expense)/credit	(728)	(0.1)	2,778	0.2	34,658	2.5
Loss and total comprehensive expense for the year	(88,444)	(11.0)	(348,245)	(29.6)	(611,607)	(44.6)
Loss per share						
– Basic (in RMB)	(0.79)	(0.0)	(2.95)	(0.0)	(5.19)	(0.0)
– Diluted (in RMB)	(0.79)	(0.0)	(2.95)	(0.0)	(5.19)	(0.0)

Non-IFRS Measures

To supplement our consolidated financial statements, which are presented in accordance with IFRS, we also use adjusted net profit/(loss) (non-IFRS measure) and adjusted EBITDA (non-IFRS measure) as an additional financial measure, which is not required by, or presented in accordance with, IFRS.

We believe this measure provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of adjusted net profit/(loss) (non-IFRS measure) may not be comparable to similarly titled measures presented by other companies. The use of this non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for an analysis of, our results of operations or financial condition as reported under IFRS.

Adjusted Net Profit/(Loss) (Non-IFRS Measure)

We define adjusted net profit/(loss) (non-IFRS measure) as net profit/(loss) for the year adjusted by adding (i) share-based payment expenses, (ii) fair value changes of financial liabilities at FVTPL, and (iii) [**REDACTED**] expenses.

The following table reconciles our adjusted net profit/(loss) (non-IFRS measure) for the year presented to the most directly comparable financial measures calculated and presented in accordance with IFRS, namely profit/(loss) for the year:

	Year ended December 31,		
	2020	**2021**	**2022**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Reconciliation of net loss to adjusted net profit/(loss) (non-IFRS measure)			
Loss for the year	(88,444)	(348,245)	(611,607)
Add:			
Share-based payment expenses(1)	62,529	7,739	16,509
Gain/(loss) on changes in fair value of financial liabilities at FVTPL(2)	(18,609)	416,358	702,170
[**REDACTED**] expenses(3)	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Adjusted net (loss)/profit (non-IFRS measure)	(44,524)	93,481	135,189

(1) A non-cash expense arising from granting share option to employees.

(2) Represents a non-cash fair value changes arising from preferred shares, warrants and convertible bonds to investors.

(3) Expenses relates to our [**REDACTED**].

EBITDA and Adjusted EBITDA (Non-IFRS Measures)

We define EBITDA (non-IFRS measure) as net loss for the year by adding back (i) net finance costs, (ii) income tax expense/(credit), (iii) depreciation and (iv) amortization. We add back share-based payment expenses, fair value changes of financial liabilities at FVTPL and [**REDACTED**] expenses to EBITDA to derive adjusted EBITDA (non-IFRS measure).

The following table sets out EBITDA and adjusted EBITDA (non-IFRS measures) and a reconciliation from loss for the year to EBITDA and adjusted EBITDA (non-IFRS measures) for the year indicated:

	Year ended December 31,		
	2020	**2021**	**2022**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Reconciliation of loss for the year to and adjusted EBITDA (non-IFRS measure)			
Net loss for the year	(88,444)	(348,245)	(611,607)
Add:			
Net finance costs[1]	83,579	144,470	163,034
Income tax expense/(credit)[2]	728	(2,778)	(34,658)
Depreciation[3]	220,975	301,788	396,289
Amortization[4]	104	241	410
EBITDA (non-IFRS measure)	216,942	95,476	(86,532)
Add:			
Share-based payment expenses	62,529	7,739	16,509
(Gain)/loss on changes in fair value of financial liabilities at FVTPL	(18,609)	416,358	702,170
[**REDACTED**] expenses	[REDACTED]	[REDACTED]	[REDACTED]
Adjusted EBITDA (non-IFRS measure)	260,862	537,202	660,264

(1) Equals the balance of finance costs net of the interest income from banks.

(2) Equals the sum of the current tax and deferred tax.

(3) Equals the sum of the depreciation costs of our self-owned rental computer devices and right-of-use assets.

(4) Equals the sum of the amortization costs of our intangible assets and other non-current assets.

Revenue

During the Track Record Period, we generated revenue from (i) pay-as-you-go office IT integrated solutions, (ii) sales of devices, and (iii) SaaS and other services.

The following table sets forth a breakdown of our revenue by segment for the periods indicated:

	For the year ended December 31,					
	2020		2021		2022	
	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except for percentages)					
Pay-as-you-go office IT integrated solutions	643,345	79.1	997,895	84.3	1,165,159	84.9
Sales of devices	157,255	19.3	172,661	14.6	193,461	14.1
SaaS and other services	12,548	1.6	13,193	1.1	13,269	1.0
	813,148	100.0	1,183,749	100.0	1,371,889	100.0

Pay-as-you-go office IT integrated solutions

Our pay-as-you-go office IT integrated solutions afford customers the freedom of subscribing to our services for a flexible term at a monthly fee and terminating on demand (subject to certain service charges if the subscription is terminated within six months). Deposits are usually waived as long as the customers provide required information and pass our internal risk assessment. In addition, in exchange for a discount in subscription fees, customers may also choose to subscribe for a longer term ranging from one year to three years with upfront payment options, and may receive refunds (subject to certain service charges) calculated based on the remaining term in the event of early termination. Such upfront payments are recorded as advance lease payments and will be recognized as revenue when such services are provided, and the refunds are deducted thereof. As of December 31, 2020, 2021, and 2022, the advance lease payments we received from our customers amounted to RMB16.2 million, RMB30.3 million and RMB51.3 million, respectively. The revenue of our pay-as-you-go office IT integrated solutions is derived from customers' subscription fees and is recognized as lease income under IFRS 16 on a straight-line basis over the term of the relevant subscription period. See "– Significant Accounting Policies and Critical Estimates and Judgments – Significant Accounting Policies – Leases." In 2020, 2021, and 2022, our revenue from pay-as-you-go office IT integrated solutions was RMB643.3 million, RMB997.9 million and RMB1,165.2 million, respectively.

Sales of devices

In addition to our pay-as-you-go office IT integrated solutions, we offer customers the opportunity to purchase our devices, in response to certain customers' needs. Certain customers may wish to purchase our devices, and we offer them that opportunity. Customers can purchase the devices in installments, which allow them to pay a relatively small amount on monthly basis to meet their budgets. The ownership of the device are transferred to the customer upon receipt of full payment. In this case, customers are also entitled to the same level of managed

IT services as provided under our pay-as-you-go office IT integrated solutions, until they obtain full ownership of the device. Although the ownership does not transfer to the customers before the completion of installment purchase, the control of such devices are transferred to the customers when the devices are delivered to the customers, as our customers have the ability to direct the use of, and obtain substantially all of the remaining benefits from, the devices under installment purchase through using of the devices. Revenue is therefore recognized at the point of transfer of control, and relevant rental computer devices are derecognized from our balance sheet. We do not charge for the managed IT services provided to the customers who purchase devices through installment payments and the managed IT services are not treated as a separate performance obligations. Therefore, there is not any revenue recognized for the provision of such services. In addition, customers who have been using our devices under a subscription pack may prefer to buy out their devices whilst in use, primarily to maintain a consistent use of the particular devices. These customers' subscriptions are then terminated once they buy out the devices.

Our device selling prices under installment and buy-out modes (calculated with the cumulative subscription fees) typically include the purchase price of the device and the value of our managed IT services. We determine the selling prices of devices taking into account the market prices set by the IT brands. We recognize the revenue from sales of devices at the time of the sales, and derecognize rental computer devices accordingly in our balance sheet. We start to record trade receivables arisen from installment sales of devices upon the time of sales of devices. We also issue bills to customers under installment sales of devices on the billing dates. The aging of trade receivables arisen from installment sales of devices is calculated from the billing dates instead of from the dates when the sales are made. We determine the sales price of devices sold to existing customers by considering the length of period during which the existing customers have been using our devices and the subscription service fee already paid by the existing customers: (i) for subscribing customers using our devices less than or equal to one year at the time of the buy out, the sales price of the device is determined based on the market price of the device at the time when customers initially placed order for our subscription packs; (ii) for subscribing customers using our devices more than one year at the time of the buy out, the sales price of the device equals to the purchase price of the device in installments, less the subscription fee already paid. In such case, the relevant installment periods are calculated as all previous subscription periods plus one. Further, we may sell pre-owned devices at commercially favorable prices through our online bidding platform, Epaiji, to optimize our device portfolio, and supplement our revenue streams. In 2020, 2021, and 2022, we sold 100,293, 109,786 and 177,360 devices, respectively, among which 44,941, 36,922 and 117,165 devices, respectively, were sold on the Epaiji platform. Our revenue from sales of devices is derived from sales of computer devices and computer accessories. In 2020, 2021, and 2022, our revenue from sales of devices was RMB157.3 million, RMB172.7 million and RMB193.5 million, respectively, among which RMB36.7 million, RMB41.8 million and RMB75.9 million, respectively, were generated through sales of devices on the Epaiji platform.

SaaS and other services

Our revenue from our SaaS and other services primarily includes revenue from the provision of SaaS and other services. Epandian is our revenue-generating SaaS during the Track Record Period. It is designed to help enterprise customers manage their assets and inventories from procurement and storage to usage and disposal for an annual subscription fee ranging from approximately RMB680 to RMB13,980. In 2020, 2021, and 2022, our revenue from SaaS was RMB5.3 million, RMB3.3 million and RMB5.6 million, respectively. Our other services are IT maintenance services provided to customers who do not subscribe to our pay-as-you-go office IT integrated solutions or receive our services under installment purchases may also engage us for IT maintenance. We charge relevant service fees for such IT maintenance services. In 2020, 2021, and 2022, our revenue from such maintenance services was RMB7.3 million, RMB9.9 million and RMB7.6 million respectively.

Cost of Sales

During the Track Record Period, the cost of pay-as-you-go office IT integrated solutions consists primarily of depreciation costs of devices, staff and other costs related to maintenance, risk control and operation. The cost of sales for our sales of devices mainly represents the residual value of the devices. The cost of sales for our SaaS and other services is primarily staff costs for maintenance and operation. The following table sets forth a breakdown of our cost of sales for the periods indicated:

	For the year ended December 31,					
	2020		2021		2022	
	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except for percentages)					
Pay-as-you-go office IT integrated solutions	**331,644**	**69.7**	**457,546**	**74.0**	**524,873**	**70.4**
– Depreciation of self-owned and leased-in rental computer devices	209,395	44.0	285,457	46.2	370,007	49.6
– Staff and other costs	122,249	25.7	172,089	27.8	154,866	20.8
Sales of devices	**142,429**	**30.0**	**157,974**	**25.5**	**218,706**	**29.4**
SaaS and other services	**2,030**	**0.3**	**3,007**	**0.5**	**1,767**	**0.2**
Total	**476,103**	**100.0**	**618,527**	**100.0**	**745,346**	**100.0**

The following table sets forth a breakdown of our cost of sales by nature for the periods indicated:

	For the year ended December 31,					
	2020		2021		2022	
	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except for percentages)					
Depreciation of self-owned and lease-in rental computer devices	209,395	44.0	285,457	46.2	370,007	49.6
Purchase cost of sales of devices	138,439	29.1	153,003	24.7	213,753	28.7
Employee benefit cost	60,742	12.8	84,412	13.6	90,143	12.1
Packing and delivery cost	23,833	5.0	33,750	5.5	27,707	3.7
Others[1]	43,694	9.1	61,905	10.0	43,736	5.9
Total	**476,103**	**100.0**	**618,527**	**100.0**	**745,346**	**100.0**

Note:

(1) Others include cost of accessories, technical service cost, other daily operating costs, and cost for SaaS and other services.

Gross Profit/(Loss) and Gross Profit/(Loss) Margin

Gross profit/(loss) represents our revenue less cost of sales. The following table sets forth our gross profit/(loss) and gross profit/(loss) margin by segment for the periods indicated:

	For the year ended December 31,					
	2020		2021		2022	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit/(loss)	Gross profit/(loss) margin
	Amount	*%*	*Amount*	*%*	*Amount*	*%*
	(RMB in thousands, except for percentages)					
Pay-as-you-go office IT integrated solutions	311,701	48.5	540,349	54.1	640,286	55.0
Sales of devices	14,826	9.4	14,687	8.5	(25,245)	(13.0)
SaaS and other services	10,518	83.8	10,186	77.2	11,502	86.7
Total gross profit/Overall gross profit margin	337,045	41.4	565,222	47.7	626,543	45.7

Our gross profit continuously increased during the Track Record Period, which was mainly in line with our revenue growth. Our gross profit margin expanded from 41.4% for the year ended December 31, 2020 to 47.7% for the year ended December 31, 2021, primarily due to increase in gross profit margin of our pay-as-you-go office IT integrated solutions and slightly decreased to 45.7% for the year ended December 31, 2022, primarily attributable to decrease in gross profit margin of our sales of devices, which was partially offset by increase in gross profit margin of our SaaS and other services. For details of the fluctuations of our gross profit margin during the Track Record Period, see "– Results of operations."

Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of employee salaries and benefit expenses. For the years ended December 31, 2020, 2021 and 2022, our selling and marketing expenses amounted to RMB119.0 million, RMB181.0 million and RMB164.7 million, respectively. As a percentage of our revenue, our selling and marketing expenses were 14.6%, 15.3% and 12.0% for the years ended December 31, 2020, 2021, and 2022, respectively. The following table sets forth a breakdown of our selling and marketing expenses for the periods indicated:

	Year ended December 31,					
	2020		2021		2022	
	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except for percentages)					
Employee salaries and benefit expenses	90,386	75.9	132,859	73.4	130,082	79.0
Share-based compensation	1,382	1.2	1,836	1.0	2,502	1.5
Human resource service fee	5,548	4.7	405	0.2	977	0.6
Advertising and marketing expenses	7,192	6.0	20,035	11.1	5,776	3.5
Office and traveling expenses	6,447	5.4	8,938	4.9	6,531	4.0
Others(1)	8,080	6.8	16,965	9.4	18,843	11.4
Total	119,035	100.0	181,038	100.0	164,711	100.0

Note:

(1) Others include rental expenses and utilities, consulting service fees, hospitality fees and low-value consumables.

Research and Development Expenses

Our research and development expenses primarily consist of employee salaries and benefit expenses. For the years ended December 31, 2020, 2021, and 2022, our research and development expenses amounted to RMB57.9 million, RMB62.1 million and RMB84.0 million, respectively. The following table sets forth a breakdown of our research and development expenses for the periods indicated:

	Year ended December 31,					
	2020		2021		2022	
	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except for percentages)					
Employee salaries and benefit expenses	46,366	80.0	53,768	86.6	63,916	76.1
Share-based compensation	1,293	2.2	1,293	2.1	6,111	7.3
Human resource service fee	4,966	8.6	–	–	281	0.3
Consulting service fee	3,400	5.9	4,532	7.3	8,356	9.9
Others[(1)]	1,917	3.3	2,474	4.0	5,362	6.4
Total	57,942	100.0	62,067	100.0	84,026	100.0

Note:

(1) Others include rental expenses and utilities, office and traveling expenses.

General and Administrative Expenses

Our general and administrative expenses primarily consist of employee salaries and benefit expenses. For the years ended December 31, 2020, 2021, and 2022, our general and administrative expenses amounted to RMB110.3 million, RMB78.2 million and RMB106.1 million, respectively. As a percentage of our revenue, our general and administrative expenses were 13.6%, 6.6% and 7.7% for the years ended December 31, 2020, 2021, and 2022, respectively. The following table sets forth a breakdown of our general and administrative expenses for the periods indicated:

	Year ended December 31,					
	2020		2021		2022	
	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except for percentages)					
Employee salaries and benefit expenses	26,319	23.9	48,002	61.4	65,621	61.9
Share-based compensation	58,605	53.1	3,475	4.4	6,684	6.3
Human resource service fee	1,073	1.0	430	0.5	457	0.4
Office and traveling expenses	3,994	3.6	6,931	8.9	9,922	9.4
Consulting service[(1)]	8,470	7.7	8,756	11.2	10,442	9.8

	Year ended December 31,					
	2020		2021		2022	
	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except for percentages)					
Rental expenses and utilities	7,037	6.4	3,250	4.2	6,887	6.5
Other tax	1,667	1.5	2,347	3.0	1,740	1.6
Others(2)	3,164	2.8	5,005	6.4	4,340	4.1
Total	110,329	100.0	78,196	100.0	106,093	100.0

Notes:

(1) Mainly including fees in relation to legal services, audit and valuation services as well as technical services incurred in the ordinary course of our business.

(2) Including hospitality fees, low-value consumables, and depreciation and amortization.

Other Income

Our other income primarily consists of: (i) interest income from banks and trade receivables; (ii) government grants which mainly represent subsidies received from local governments in Beijing and Wuhan for encouraging and rewarding innovative enterprises; (iii) compensation income representing device damage compensation paid by our customers; and (iv) additional VAT input deduction that were recognized in profit or loss due to the VAT reform. In accordance with Taxation Announcement No. 39 of 2019, we are eligible for additional VAT input deduction by 10% of the current period VAT payable from April 1, 2019 to December 31, 2021 and the implementation period was further extended to December 31, 2022 in accordance with Taxation Announcement No. 11 of 2022. For the years ended December 31, 2020 and 2021, we did not incur cash outflow on VAT payable because our VAT input was greater than VAT output during the same year as a result of the procurement of rental computer devices, and therefore, no additional VAT input deduction was recognized. For the year ended December 31, 2022, we had current period VAT payable due to the continued increase in revenue, and therefore, we were eligible for additional VAT input deduction, and consequently recognized additional VAT input deduction. The following table sets forth a breakdown of our other income for the years indicated:

	For the year ended December 31,					
	2020		2021		2022	
	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except for percentages)					
Interest income from banks	11,763	56.8	1,767	18.3	6,561	13.4
Interest income from trade receivables under installment sales	6,583	31.8	7,060	73.3	5,096	10.4
Government grants	610	3.0	181	1.9	1,766	3.6
Compensation income	1,740	8.4	622	6.5	575	1.2
Additional value added tax ("VAT") input deduction	–	–	–	–	34,905	71.4
	20,696	100.0	9,630	100.0	48,903	100.0

Other Gains and Losses

Our other gains and losses primarily consist of: (i) fair value change of financial assets at FVTPL in connection with structured deposits we purchased; (ii) net exchange gain/loss, which mainly represents the exchange rate changes of foreign currency USD against functional currency RMB. During the year ended December 31, 2022, the USD appreciated against RMB, resulting in net exchange gain from monetary items such as bank balances we held. During the year ended December 31, 2020, the USD depreciated significantly against RMB, and the amount of our bank balances in USD increased as we owned U.S. dollar-denominated convertible bonds, resulting in a net exchange loss. During the year ended December 31, 2021, the net exchange gain mainly arose from the fluctuation of USD against RMB during the year, at the transaction date of settlement of monetary items and on the retranslation of monetary items. (iii) loss on written-off of rental computer devices, which represents the losses we recognize for devices under customers' control that are not expected to be recovered by us. We recorded an increased loss on written-off of rental computer devices in 2022 primarily because certain of our customers had operational difficulties with an increased amount of incidents such as lay-offs and closure, leading to an increase in the number of incidents of damage or loss of our devices during the same time; (iv) impairment losses on rental computer devices, which are recognized as we estimated that the net realized value is less than the carrying amounts of rental computer devices; and (v) others, primarily including donations and gifts. For the years ended December 31, 2020 and 2022, our other losses amounted to RMB49.3 million and RMB15.9 million, respectively. For the year ended December 31, 2021, our other gains amounted to RMB6.2 million. The following table sets forth a breakdown of our other gains and losses, net for the periods indicated:

	For the year ended December 31,					
	2020		2021		2022	
	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except for percentages)					
(Loss)/gain on changes in fair value of financial assets at FVTPL	(3,178)	(6.4)	457	7.4	911	5.7
Net exchange (loss)/gain	(33,629)	(68.3)	14,933	241.6	6,211	39.1
Loss on written-off of rental computer devices[(1)]	(12,629)	(25.6)	(6,817)	(110.3)	(22,811)	(143.6)
Gain/(loss) on termination of lease contract	157	0.3	(1,814)	(29.3)	–	0.0
Others	16	0.0	(578)	(9.4)	(197)	(1.2)
Total	(49,263)	(100.0)	6,181	100.0	(15,886)	(100.0)

(1) For customers with six months overdue billings, we cease to recognize revenue and we recognize loss on written-off of rental computer devices held by the customers.

Fair Value Changes on Financial Liabilities at Fair Value through Profit or Loss ("FVTPL")

Our financial liabilities at FVTPL are our preferred shares, warrants and convertible bonds issued to investors. Fair values of preferred shares, warrants and convertible bonds are affected by changes in our equity value and various parameters and inputs. Change in fair value presented in RMB include effect of exchange on translation from US dollars balances. For the years ended December 31, 2021 and 2022, our loss on fair value change of financial liabilities at FVTPL amounted to RMB416.4 million and RMB702.2 million, respectively, which increased in relation to the change in valuation of our preferred shares. For the year ended December 31, 2020, our gain on fair value change of financial liabilities at FVTPL amounted to RMB18.6 million. See note 31.4 to the Accountants' Report in Appendix I to this Document.

Impairment Losses under Expected Credit Loss Model ("ECL"), Net of Reversal

Our net ECL assets primarily consist of our trade receivables. We typically record impairment losses on our trade receivables and other receivables when we assess that there is a significant increase in the credit risk relating to the relevant customers. We may reverse the impairment loss when the customers eventually paid. For the years ended December 31, 2020, 2021, and 2022, our impairment losses under ECL, net of reversal amounted to RMB32.2 million, RMB30.5 million and RMB51.1 million, respectively. The following table sets forth a breakdown of our impairment losses under ECL, net of reversal for the periods indicated:

	For the year ended December 31,					
	2020		2021		2022	
	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except for percentages)					
Impairment losses, net of reversals, recognized on:						
Trade receivables	32,192	100.1	30,380	99.5	51,066	99.9
Other receivables	(37)	(0.1)	151	0.5	47	0.1
Total	32,155	100.0	30,531	100.0	51,113	100.0

During the Track Record Period, our impairment losses under expected credit loss model, net of reversal as a percentage of revenue was 4.0%, 2.6% and 3.7% respectively, which is consistent with our prudent approach in assessing impairment losses under ECL model. Debtors with outstanding balances of RMB21.0 million, RMB32.2 million and RMB79.3 million as of December 31, 2020, 2021 and 2022, respectively, were assessed individually by our credit management team from continuously monitoring. Our credit management team determines these debtors are 100% credit-impaired in a variety of situations, such as when the debtor is unable to settle due to business operations or financial conditions, or when we have been defrauded by a counterparty that has misused the debtor's business license. See "– Significant Accounting Policies and Critical Estimates and Judgments – Key sources of estimation uncertainty – Provision of ECL for trade receivables." We have adopted a series of internal control measures to address the issue and mitigate the relevant credit risk. We have implemented and enhanced the know-your-customer procedures, established a new risk control model that allows us to conduct real-time risk monitoring on customers' operating condition, and have been closely following the recent development of industry-wide regulations that may affect our customers' collectability. See "– Quantitative and Qualitative Disclosure of Financial Risks – Credit Risk" for details.

Finance Costs

Our finance costs primarily consist of: (i) interest on interest-bearing loans from banks and other borrowings, (ii) interest on lease liabilities for the leased-in computer devices, buildings and warehouses we leased, and (iii) interest on bond payable. The following table sets forth a breakdown of our finance costs for the years indicated:

	For the year ended December 31,		
	2020	**2021**	**2022**
		RMB'000	
Interest on borrowings	87,022	124,205	131,325
Interest on lease liabilities	8,320	21,895	37,234
Interest on bond payable	–	137	1,036
Total	95,342	146,237	169,595

Income Tax (Expense)/Credit

Our income tax (expense)/credit consists of current enterprise income tax and deferred tax. For the year ended December 31, 2020, we had income tax expense of RMB0.7 million. For the years ended December 31, 2021 and 2022, we had income tax credit of RMB2.8 million and RMB34.7 million, respectively.

The following table sets forth a breakdown of our income tax (expense)/credit for the periods indicated, respectively:

	For the year ended December 31,		
	2020	**2021**	**2022**
		RMB'000	
Current enterprise income tax	(728)	(845)	(901)
Deferred tax	–	3,623	35,559
Total	(728)	2,778	34,658

Cayman Islands

Under the current laws of the Cayman Islands, the Company and its subsidiaries incorporated in the Cayman Islands are not subject to tax on income or capital gains. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

Hong Kong

The Company's subsidiaries domiciled in Hong Kong are subject to a two-tiered income tax rate for taxable income earned in Hong Kong, effectively since April 1, 2018. The first HKD2 million of profit earned by the company is subject to be taxed at an income tax rate of 8.25%, while the remaining profits will be taxed at the existing tax rate, 16.5%. To avoid abuse of the two-tiered tax regime, each group of connected entities can nominate only one entity to benefit from the two-tiered tax rate. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

PRC

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for the Track Record Period.

Beijing Ediantao has been accredited as a "New and High Technical Enterprise" by the Science and Technology Bureau of Beijing and relevant authorities in October 2019 for a term of three years, from 2019 to 2021 and renewed the certificate in December 2022 for another term of three years from 2022 to 2024. In accordance with the "Notice of the State Tax Bureau of the Ministry of Finance Regarding Certain Preferential Treatment Policies on Enterprise Income Tax", a New and High Technical Enterprise is subject to income tax at a tax rate of 15%.

Certain subsidiaries have been approved as Small Low-profit Enterprises. The entitled subsidiaries are subject to a preferential income tax rate of 10% up to December 31, 2022.

According to the relevant laws and regulations in the PRC, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). The State Taxation Administration of the PRC announced in September 2018 that enterprises engaging in research and development activities would be entitled to claim 175% of their research and development expenses as Super Deduction from January 1, 2018 to December 31, 2023.

The State Taxation Administration of the PRC announced in September 2022 that enterprises accredited as "New and High Technical Enterprise" would be entitled to claim 100% of the purchase price for equipment and appliances newly purchased during the period from October 1, 2022 to December 31, 2022 as tax deductible expenses and 100% additional deduction for the year ended December 31, 2022.

RESULTS OF OPERATIONS

Year ended December 31, 2021 compared with year ended December 31, 2022

Revenue

Our revenue increased by 15.9% from RMB1,183.7 million for the year ended December 31, 2021 to RMB1,371.9 million for the year ended December 31, 2022, primarily due to an increase in revenue from our pay-as-you-go office IT integrated solutions.

Pay-as-you-go office IT integrated solutions

Revenue from pay-as-you-go office IT integrated solutions increased by 16.8% from RMB997.9 million for the year ended December 31, 2021 to RMB1,165.2 million for the year ended December 31, 2022. The increase was driven by the increase in customers' subscriptions. The number of our subscribing customers grew from approximately 38,000 as of December 31, 2021 to approximately 42,000 as of December 31, 2022, and our average number of devices under subscription increased during the year of 2022 compared to that during the year of 2021 while our number of devices under subscription remained relatively stable at approximately 1.1 million as of December 31, 2022 and December 31, 2021.

Sales of devices

Revenue from sales of devices increased by 12.0% from RMB172.7 million for the year ended December 31, 2021 to RMB193.5 million for the year ended December 31, 2022. The increase was primarily because we sold more devices in 2022 compared to 2021. We sold 177,360 devices, including 117,165 devices sold through our Epaiji platform in 2022, compared to a totality of 109,786 devices sold, including 36,922 devices sold through Epaiji in 2021.

SaaS and other services

Revenue from our SaaS and other services remained relatively stable at RMB13.2 million for the year ended December 31, 2021 and RMB13.3 million the year ended December 31, 2022.

Cost of sales

Our cost of sales increased by 20.5% from RMB618.5 million for the year ended December 31, 2021 to RMB745.3 million for the year ended December 31, 2022, primarily due to the increase in the number of devices sold.

Pay-as-you-go office IT integrated solutions

Cost of pay-as-you-go office IT integrated solutions increased by 14.7% from RMB457.5 million for the year ended December 31, 2021 to RMB524.9 million for the year ended December 31, 2022. This was primarily due to the primarily due to the increase in depreciation costs caused by growth in our device volumes.

Sales of devices

Cost of sales of devices increased by 38.4% from RMB158.0 million for the year ended December 31, 2021 and RMB218.7 million for the year ended December 31, 2022, primarily because we sold an increased amount of devices during the same year.

SaaS and other services

Cost of sales of SaaS and other services decreased by 41.2% from RMB3.0 million for the year ended December 31, 2021 to RMB1.8 million for the year ended December 31, 2022 because we have achieved economies of scale with the increase in the number of our customers.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 10.8% from RMB565.2 million for the year ended December 31, 2021 to RMB626.5 million for the year ended December 31, 2022. Our gross profit margin decreased from 47.7% for the year ended December 31, 2021 to 45.7% for the year ended December 31, 2022. The decrease in our gross profit margin is primarily attributable to decrease in gross profit margin of our sales of devices.

Pay-as-you-go office IT integrated solutions

Gross profit from our pay-as-you-go office IT integrated solutions increased by 18.5% from RMB540.3 million for the year ended December 31, 2021 to RMB640.3 million for the year ended December 31, 2022, whilst the gross profit margin of our pay-as-you-go office IT integrated solutions was 54.1% for the year ended December 31, 2021, which remained relatively stable compared to that of 55.0% for the year ended December 31, 2022.

Sales of devices

Gross profit from sales of devices decreased significantly from RMB14.7 million for the year ended December 31, 2021, to a loss of RMB25.2 million for the year ended December 31, 2022, and our gross profit margin of sales of devices decreased from 8.5% for the year ended December 31, 2021 to a loss margin of 13.0% for the year ended December 31, 2022. The gross profit margin of sales of devices decreased primarily because the gross profit margin of our sales of devices through Epaiji platform decreased mainly because (a) we strategically expanded sales of surplus of devices through Epaiji platform with generally lower prices than our previous sales through Epaiji to improve operational efficiency and the utilization rate of our devices. In the years ended December 31, 2021 and 2022, we sold 36,922 and 117,165 devices through our Epaiji platform, respectively. Furthermore, many of our customers on Epaiji platform bid for devices in bulk, and the number of customers with the capabilities to bid for larger amount of devices is smaller, resulting in less competition in bidding, lower purchase price and decreased profit margin; and (b) as the demand in the PC market declined significantly in 2022 with increase in supply in relation to (i) ease on supply chain shortage and (ii) increased supplies of pre-owned devices from companies that disposed self-owned devices due to lay-offs or closures during the same year, we also adjusted the sales price for sales through Epaiji accordingly.

SaaS and other services

Gross profit from SaaS and other services increased from RMB10.2 million for the year ended December 31, 2021, to RMB11.5 million for the year ended December 31, 2022. Gross profit margin of SaaS and other services increased from 77.2% for the year ended December 31, 2021 to 86.7% for the year ended December 31, 2022, primarily because we have achieved economies of scale with the increase in the number of our customers.

Selling and marketing expenses

Our selling and marketing expenses decreased by 9.0% from RMB181.0 million for the year ended December 31, 2021 to RMB164.7 million for the year ended December 31, 2022, mainly representing a decrease in employee salaries and benefit expenses as well as advertising and marketing expenses, primarily as (i) we have strategically devoted more resources to our research and development activities while decreased our investments in marketing activities and (ii) our sales and marketing activities, in particular offline sales and marketing activities, decreased under the temporary impacts of the COVID-19 Outbreak in 2022.

Research and development expenses

Our research and development expenses increased by 35.4% from RMB62.1 million for the year ended December 31, 2021 to RMB84.0 million for the year ended December 31, 2022, primarily due to an increase in employee salaries and benefit expenses driven by the increase in employee number of our research and development team in relation to our new R&D programs and in line with our business strategy.

General and administrative expenses

Our general and administrative expenses increased by 35.7% from RMB78.2 million for the year ended December 31, 2021 to RMB106.1 million for the year ended December 31, 2022, mainly due to an increase in employee compensation mainly in relation to the increase in the number of our employees.

Finance costs

Our finance costs increased by 16.0% from RMB146.2 million for the year ended December 31, 2021 to RMB169.6 million for the year ended December 31, 2022, primarily due to increase on interest on lease liabilities primarily in relation to the increase in our leased-in devices.

Other income

Our other income increased from RMB9.6 million for the year ended December 31, 2021 to RMB48.9 million for the year ended December 31, 2022, as certain of our subsidiaries became eligible for additional VAT input deduction.

Other gains and losses, net

We recorded other net gains from RMB6.2 million for the year ended December 31, 2021 and net losses of RMB15.9 million for the year ended December 31, 2022. Such decrease was mainly attributable to increase in loss on written-off of rental computer devices primarily because certain of our customers had operational difficulties with an increased amount of incidents such as lay-offs and closure, leading to an increase in the number of incidents of damage or loss of our devices during the same time.

Loss on fair value change on financial liabilities at FVTPL

Our loss on the fair value change on financial liabilities at FVTPL increased from RMB416.4 million for the year ended December 31, 2021 to RMB702.2 million in the year ended December 31, 2022, which was primarily related to change in the valuation of our preferred shares.

Impairment losses under ECL, net of reversal

Our impairment losses under ECL, net of reversal increased by 67.4%, from RMB30.5 million for the year ended December 31, 2021 to RMB51.1 million for the year ended December 31, 2022, primarily due to the increase in the amount of trade receivables and the increase in estimated default rates.

Income Tax (Expense)/Credit

Our income tax credit increased from RMB2.8 million for the year ended December 31, 2021 to RMB34.7 million for the year ended December 31, 2022, mainly driven by an increase in the deferred tax we recognized as of December 31, 2022. See note 10B in Appendix I to this document.

Loss for the Year

As a result of the foregoing, our loss for the period increased from RMB348.2 million for the year ended December 31, 2021 to RMB611.6 million for the year ended December 31, 2022.

Year ended December 31, 2021 compared with the year ended December 31, 2020

Revenue

Our revenue increased by 45.6% from RMB813.1 million for the year ended December 31, 2020 to RMB1,183.7 million for the year ended December 31, 2021, primarily due to an increase in revenue from our pay-as-you-go office IT integrated solutions.

Pay-as-you-go office IT integrated solutions

Revenue from pay-as-you-go office IT integrated solutions increased by 55.1% from RMB643.3 million for the year ended December 31, 2020 to RMB997.9 million for the year ended December 31, 2021. The increase was driven by the increase in customers' subscriptions. The number of our subscribing customers grew from approximately 28,000 as of December 31, 2020 to approximately 38,000 as of December 31, 2021. Our number of devices under subscription grew from approximately 0.8 million to approximately 1.1 million during the same period.

Sales of devices

Revenue from sales of devices increased by 9.8% from RMB157.3 million for the year ended December 31, 2020 to RMB172.7 million for the year ended December 31, 2021. This was because we sold surplus or less popular devices (which are usually priced lower than new devices or popular devices) more actively for the purpose of managing the efficiency of our devices.

SaaS and other services

Revenue from our SaaS and other services increased by 5.1% from RMB12.5 million for the year ended December 31, 2020 to RMB13.2 million for the year ended December 31, 2021.

Cost of sales

Our cost of sales increased by 29.9% from RMB476.1 million for the year ended December 31, 2020 to RMB618.5 million for the year ended December 31, 2021, which is generally in line with our revenue growth.

Pay-as-you-go office IT integrated solutions

Cost of pay-as-you-go office IT integrated solutions increased by 38.0% from RMB331.6 million for the year ended December 31, 2020 to RMB457.5 million for the year ended December 31, 2021. This was primarily due to the increase in depreciation costs caused by growth in our device volumes. In order to meet the expected growth in demand for our pay-as-you-go office IT integrated solutions and to maintain our market expansion strategy, we had strategically increased our device volume. We had approximately 1.1 million devices under subscription as of December 31, 2021, as compared with approximately 0.8 million devices under subscription as of December 31, 2020.

Sales of devices

Cost of sales of devices increased by 10.9% from RMB142.4 million for the year ended December 31, 2020 to RMB158.0 million for the year ended December 31, 2021, which is in line with the revenue growth from sales of devices.

SaaS and other services

Cost of sales of SaaS and other services increased by 48.1% from RMB2.0 million for the year ended December 31, 2020 to RMB3.0 million for the year ended December 31, 2021.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 67.7% from RMB337.0 million for the year ended December 31, 2020 to RMB565.2 million for the year ended December 31, 2021. Our gross profit margin increased from 41.4% for the year ended December 31, 2020 to 47.7% for the year ended December 31, 2021. The increase in our gross profit and gross profit margin is primarily attributable to the growth in profitability of our pay-as-you-go office IT integrated solutions.

Pay-as-you-go office IT integrated solutions

Gross profit from our pay-as-you-go office IT integrated solutions increased by 73.4% from RMB311.7 million for the year ended December 31, 2020 to RMB540.3 million for the year ended December 31, 2021, whilst the gross profit margin of our pay-as-you-go office IT integrated solutions increased from 48.5% for the year ended December 31, 2020 to 54.1% for the year ended December 31, 2021. The increase of gross profit margin is primarily attributable to: (i) our better bargaining position under economies of scale in procurement negotiations, enabling us to procure devices at a lower price and lowering the growth rate in depreciation costs; (ii) our enhanced remanufacturing capability enabling us to lower our remanufacturing costs and improve maintenance efficiency; and (iii) our improved efficiency in service delivery and risk control.

Sales of devices

Gross profit from sales of devices was RMB14.8 million for the year ended December 31, 2020, and remained relatively stable at RMB14.7 million for the year ended December 31, 2021, and our gross profit margin of sales of devices remained relatively stable at 9.4% and 8.5% for the years ended December 31, 2020 and 2021, respectively.

SaaS and other services

Gross profit from SaaS and other services was RMB10.5 million for the year ended December 31, 2020 and remained relatively stable at RMB10.2 million for the year ended December 31, 2021. Gross profit margin of SaaS and other services decreased from 83.8% for the year ended December 31, 2020 to 77.2% for the year ended December 31, 2021, primarily due to that the types of maintenance tasks requested by customers varied from period to period while gross profit from SaaS services remained stable.

Selling and marketing expenses

Our selling and marketing expenses increased by 52.1% from RMB119.0 million for the year ended December 31, 2020 to RMB181.0 million for the year ended December 31, 2021, primarily due to our increased investment in advertisement and marketing campaigns, the increased number of our sales and marketing employees, and the adoption of an employee share option plan to increase employee compensation, which was in line with our business expansion strategy.

Research and development expenses

Our research and development expenses increased by 7.1% from RMB57.9 million for the year ended December 31, 2020 to RMB62.1 million for the year ended December 31, 2021, primarily due to the increase in the compensation to our research and development employees, and the adoption of an employee share option plan to increase the employee compensation as a result of our business strategy to recruit and foster a more sophisticated and fully-fledged research and development team.

General and administrative expenses

Our general and administrative expenses decreased by 29.1% from RMB110.3 million for the year ended December 31, 2020 to RMB78.2 million for the year ended December 31, 2021, mainly due to an employee share option plan granted to and exercised by our Directors in 2020, which made the share-based payment to our Directors and other key management personnel higher than that in the other years.

Finance costs

Our finance costs increased by 53.4% from RMB95.3 million for the year ended December 31, 2020 to RMB146.2 million for the year ended December 31, 2021, primarily due to increases in (i) interest on interest-bearing loans from banks and other borrowings, and (ii) interest on our leased-in computer devices and our leased buildings and warehouses, which are increasing as a result of our business expansion.

Other income

Our other income decreased by 53.5% from RMB20.7 million for the year ended December 31, 2020 to RMB9.6 million for the year ended December 31, 2021, primarily due to the decrease of RMB10.0 million in interest income from banks, which was because we converted our bank deposits to cash for device procurement and reorganization purposes.

Other gains and losses, net

We recorded other net losses of RMB49.3 million for the year ended December 31, 2020 and other net gains of RMB6.2 million for the year ended December 31, 2021. Such change was primarily due to our RMB14.9 million net exchange gain for the year ended December 31, 2021 compared to our RMB33.6 million net exchange loss for the year ended December 31, 2020, and our RMB0.5 million gain on changes in fair value of financial assets at FVTPL for the year ended December 31, 2021 compared to our RMB3.2 million loss on changes in fair value of financial assets at FVTPL for the year ended December 31, 2020. The change of our recorded net exchange loss to net exchange gain was mainly caused by foreign exchange rate changes. We recorded an RMB3.2 million loss on the fair value change on financial assets at FVTPL for the year ended December 31, 2020, primarily due to the fair value change of certain stocks we held in the nine months ended September 30, 2020, which were later disposed of before the end of 2020, and recorded an RMB0.5 million gain on the fair value change on financial assets at FVTPL for the year ended December 31, 2021, which was mainly fair value change of our structured deposits.

Loss on fair value change on financial liabilities at FVTPL

Our gain on the fair value change on financial liabilities at FVTPL was RMB18.6 million for the year ended December 31, 2020, which was primarily related to our preferred shares and warrants. For the year ended December 31, 2021, our loss on the fair value change on financial liabilities at FVTPL was RMB416.4 million, which was primarily related to our preferred shares.

Impairment losses under ECL, net of reversal

Our impairment losses under ECL, net of reversal decreased by 5.1%, from RMB32.2 million for the year ended December 31, 2020 to RMB30.5 million for the year ended December 31, 2021, primarily due to our strengthened risk control measures which reduce the amount of long-term trade receivables and alleviate the credit risk we are exposed to.

Income Tax (Expense)/Credit

Our income tax expense for the year ended December 31, 2020 was RMB0.7 million, while our income tax credit for the year ended December 31, 2021 was RMB2.8 million. The income tax credit in 2021 was mainly due to the RMB4.5 million deferred tax assets we recognized as of December 31, 2021, which arose from deductible temporary differences and unused tax losses to the extent that we would have sufficient taxable profit in the future. See notes 10A and 10B in Appendix I to this document.

Loss for the Year

As a result of the foregoing, our loss for the period increased significantly from RMB88.4 million for the year ended December 31, 2020 to RMB348.2 million for the year ended December 31, 2021.

DESCRIPTION OF CERTAIN ITEMS IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets out our consolidated statement of financial position as of the dates indicated:

	As of December 31,		
	2020	2021	2022
		RMB'000	
Assets			
Non-current assets			
Rental computer devices	1,236,476	1,616,011	1,456,992
Right-of-use assets	113,587	410,045	495,220
Intangible assets	63	1,059	649
Trade and other receivables and prepayments	130,870	237,277	220,442
Pledged bank deposits and time deposits	81,681	33,000	45,504
Deferred tax assets	–	4,450	39,182
Other non-current assets	7	–	–
Total non-current assets	1,562,684	2,301,842	2,257,989
Current assets			
Inventories	4,466	3,888	3,929
Contract costs	–	–	1,337
Trade and other receivables and prepayments	111,575	159,623	214,118
Debt instruments at fair value through other comprehensive income	–	34,850	–
Amounts due from shareholders	5	41	41
Structured deposits	32,015	32,009	–
Cash and cash equivalents	725,366	542,568	505,803
Pledged bank deposits and time deposits	73,808	35,439	54,376
Total current assets	947,235	808,418	779,604
Total assets	2,509,919	3,110,260	3,037,593
Equity			
Paid-in capital/share capital	667	43	43
Reserves	70,484	80,397	97,496
Accumulated losses	(1,047,079)	(1,395,690)	(2,007,887)
Total deficits	(975,928)	(1,315,250)	(1,910,348)

	As of December 31,		
	2020	2021	2022
		RMB'000	
Liabilities			
Non-current liabilities			
Borrowings	346,079	383,550	320,586
Deferred tax liabilities	–	827	–
Bond payable	–	11,250	–
Lease liabilities	47,457	124,557	103,362
Financial liabilities at FVTPL	–	2,282,188	2,984,358
Current liabilities			
Trade and other payables	94,581	163,682	188,563
Amounts due to preferred shareholders	159,675	–	–
Amounts due to shareholders	–	1,779	1,841
Deposits received for rental computer devices	16,148	12,755	12,032
Advanced lease payments	16,152	30,330	51,285
Contract liabilities	4,073	7,715	12,385
Income tax payable	2,288	3,015	3,838
Lease liabilities	47,151	167,194	185,934
Bond payable	–	14,888	11,040
Borrowings	894,785	1,221,780	1,072,717
Financial liabilities at FVTPL	1,857,458	–	–
Total current liabilities	3,092,311	1,623,138	1,539,635
Net current liabilities	(2,145,076)	(814,720)	(760,031)
Total liabilities	3,485,847	4,425,510	4,947,941
Total deficits and liabilities	2,509,919	3,110,260	3,037,593

Rental Computer Devices

The rental computer device is referring to the IT devices owned by us and provided in our subscription pack. The carrying amount of our rental computer devices increased from RMB1,236.5 million as of December 31, 2020 to RMB1,616.0 million as of December 31, 2021, due to our increasing demand for computer devices to support our business expansion. The carrying amount of our rental computer devices decreased to RMB1,457.0 million as of December 31, 2022, primarily due to the relevant depreciation costs. As of December 31, 2020, 2021 and 2022, respectively, we had approximately 29,000, 39,000 and 43,000 active customers and approximately 0.8 million, 1.1 million and 1.1 million devices under service, including both self-owned and leased-in devices. Considering such strong indicators of a rapid growth in demand for our services, we have been expanding our purchase of devices.

The following table sets out a breakdown of our self-owned rental computer devices by type for the periods indicated:

	As of December 31,		
	2020	**2021**	**2022**
Laptops	393,586	468,341	453,845
Monitors	172,920	269,995	269,644
Desktops	177,046	234,006	228,773
Others[(1)]	11,417	16,710	18,704
Total	754,969	989,052	970,966

Note:

(1) Others mainly include all-in-one PCs, workstations, servers, tablets, mobile phones, printers and other computer accessories or electronic devices.

Rental computer devices with a total carrying value of RMB932.4 million as of December 31, 2022 were pledged as security for certain of our interest-bearing borrowings as well as the associated collection rights of future rental proceeds for rental computer devices with a carrying value of RMB15.6 million. As of the Latest Practicable Date, such collection rights had not been exercised or terminated.

Right-of-use Assets

Our right-of-use assets primarily consisted of our leased-in computer devices as well as our leased buildings and warehouses during the Track Record Period. Our right-of-use leased-in rental computer devices increased from RMB96.8 million as of December 31, 2020 to RMB379.5 million as of December 31, 2021 to RMB459.3 million as of December 31, 2022. The carrying amount of our leased-in rental computer devices represented 7.3%, 19.0% and 24.0% of the total carrying amount of our leased in rental computer devices and self-owned rental computer devices as of December 31, 2020, 2021 and 2022, respectively. As our business continued growing with an increasing customer demand in our services and devices, we explored the approach of obtaining leased-in devices through finance leasing arrangements in addition to purchase of devices to optimize our capital expenditure structure. Since 2021, in order to meet the further increasing demand, we have expanded the number of leased-in devices through finance leasing arrangements, resulting in a significant increase in the carrying amount of the leased-in devices. Our right-of-use buildings and warehouses increased from RMB16.8 million as of December 31, 2020 to RMB30.5 million as of December 31, 2021, which then increased to RMB35.9 million as of December 31, 2022.

The increase of our right-of-use assets across the Track Record Period was mainly due to our increasing demand in computer devices, buildings and warehouses to support our business expansion.

Intangible Assets

Our intangible assets during the Track Record Period primarily consisted of software acquired from third parties. Our intangible assets increased from RMB0.06 million as of December 31, 2020 to RMB1.1 million as of December 31, 2021 mainly because we changed our software supplier in 2021 and purchased software with more advanced functions, which was more expensive. Our intangible assets decreased to RMB0.6 million as of December 31, 2022, as a result of amortization of intangible assets.

Inventories

Our inventories, which accounted for 0.2%, 0.1% and 0.1% of our total assets as of December 31, 2020, 2021, and 2022, respectively, primarily consist of (i) raw materials, which are mainly device components and accessories; and (ii) used rental computer devices held for sale. The following table sets forth a breakdown of our inventories as of the date indicated:

	As of December 31,		
	2020	**2021**	**2022**
		RMB'000	
Raw material	2,436	14	11
Used rental computer devices held for sale	2,030	3,874	3,918
Total	4,466	3,888	3,929

Our raw materials decreased from RMB2.4 million as of December 31, 2020 to RMB0.01 million as of December 31, 2021, primarily due to a lower number of procured components for the assembling of computer devices under our proprietary brand, which is in line with our strategy to shrink the scale of such business during the Track Record Period. Our raw materials remained relatively stable at RMB0.01 million as of December 31, 2022 compared to that as of December 31, 2021. Our used rental computer devices held for sale increased from RMB2.0 million as of December 31, 2020 to RMB3.9 million as of December 31, 2021, which is in line with the expansion strategy for our pay-as-you-go office IT integrated solutions to actively sell obsolete or less popular devices and to update our computer devices in order to provide a more attractive subscription package to our customers. Our used rental computer devices held for sale remained stable at RMB3.9 million as of December 31, 2022 compared to that as of December 31, 2021.

Trade and Other Receivables and Prepayments

Our trade and other receivables and prepayments represent (i) trade receivables from our pay-as-you-go office IT integrated solutions, (ii) trade receivables from our contracts with customers, which include sales of our devices as well as SaaS and other services, and (iii) other receivables and prepayments. In particular, during the Track Record Period, our non-current trade receivables mainly represented trade-receivables arisen from installment sales of devices, the repayment periods of which normally ranged from one to three years. Our non-current trade receivables amounted to RMB78.8 million, RMB63.2 million and RMB47.8 million as at December 31, 2020, 2021 and 2022, respectively, primarily reflecting the changes of installment sales of devices and the collection of receivables.

Our non-current trade receivables as of December 31, 2020 increased compared to that as of December 31, 2021 primarily due to the increase in revenue from installment sales of devices. Our non-current trade receivables as of December 31, 2022 decreased slightly compared to that as of December 31, 2021, primarily due to our increased allowance for credit losses.

The following table sets forth our trade and other receivables and prepayments as of the dates indicated:

	As of December 31,		
	2020	**2021**	**2022**
		RMB'000	
(a) Trade receivables			
Trade receivables – Pay-as-you-go office IT integrated solution revenue recognized as lease income under IFRS 16	97,145	151,734	188,748
Trade receivables – contracts with customers	126,502	138,259	133,638
Less: Allowance for credit losses	(81,120)	(111,500)	(159,568)
Subtotal	142,527	178,493	162,818
(b) Other receivables and prepayments			
Staff advances	576	844	552
Advance to suppliers	11,492	20,772	21,677
Recoverable value-added tax	31,387	21,026	13,960
Prepayments for [**REDACTED**] expenses	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Rental and other deposits	52,118	168,956	228,182
Deferred [**REDACTED**] costs	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Others	4,420	2,728	3,975
Less: Allowance for credit losses	(75)	(226)	(273)
Subtotal	99,918	218,407	271,742

Before the allowance for credit losses of trade receivables, as of December 31, 2020, 2021 and 2022, our trade receivables were RMB223.6 million, RMB290.0 million and RMB322.4 million, respectively. The increases in our trade receivables throughout the Track Record Period were due to the increasing amount of transactions in line with our business expansion. Our other receivables and prepayments before the allowance for credit losses amounted to RMB100.0 million, RMB218.6 million and RMB272.0 million as of December 31, 2020, 2021, and 2022, respectively. The increase in our other receivables and prepayments during the Track Record Period was primarily due to the increasing amount of (i) rental deposits, which was required by the lessors of our finance leasing arrangements to acquire some of our leased-in computer devices and (ii) other deposits, being the purchase deposits required by device suppliers primarily in relation to the increase in our leased-in devices. Under our right-of-use assets, the carrying amounts of our leased-in computer devices amounted to RMB96.8 million, RMB379.5 million and RMB459.3 million as of December 31, 2020, 2021, and 2022, respectively. Such increase was primarily due to our increasing demand for computer devices to support our business expansion.

The following table sets forth the aging analysis of our trade receivables, net of impairment losses under ECL model, as of the date indicated based on the billing date:

	As of December 31,		
	2020	**2021**	**2022**
		RMB'000	
Within 30 days	128,129	167,702	149,959
31 to 60 days	10,013	6,516	3,529
61 to 90 days	1,804	1,489	1,932
91 to 180 days	1,356	1,532	2,962
181 to 270 days	622	814	1,263
271 to 360 days	116	362	1,216
Over 360 days	487	78	1,957
Total	142,527	178,493	162,818
Average Trade receivables turnover days(1)	57	49	45

(1) Trade receivables turnover days for each period equal the average of the opening and ending balance of trade receivables (net of ECLs) for that period divided by revenue for the same period and multiplied by 365 days for a full-year period.

In consistency with industry practice, our average trade receivables turnover days decreased from 57 days for the year ended December 31, 2020 to 49 days for the year ended December 31, 2021, and further to 45 days for the year ended December 31, 2022, partially due to our strengthened risk control measures and customer management capabilities, which reduced the amount of trade receivables that are long past due. The decrease was also attributable to the increased revenue contribution by our pay-as-you-go office IT integrated solutions, the trade receivables turnover days of which are usually shorter than those of sales of devices. Since customers normally subscribe to our pay-as-you-go office IT integrated solutions on a monthly basis, we recognize corresponding trade receivables month by month throughout the subscription periods, and consequently the typical trade receivables turnover days are relatively short. In comparison, for trade receivables arisen from installment sales of devices, the repayment periods normally range from one to three years, while we recognized trade receivables in full at the time when the sales are made, which consequently leads to longer trade receivables turnover days. Therefore, with the increased revenue contribution of our pay-as-you-go office IT integrated solutions as a percentage of our total revenue, the overall trade receivables turnover days decreased.

We have assessed the recoverability of the relevant outstanding trade receivables, and have maintained frequent communications with our customers to ensure effective credit control. We believe that the risk of not being able to recover the relevant trade receivables is relatively low primarily because (i) we have evaluated the customers' historical credit standings and have not had material collection issues with these customers in the past; (ii) we have taken follow-up actions as appropriate, including making phone calls, issuing demand letters, visiting the customer's office and initiating legal proceedings or actions where necessary; (iii) we have taken various measures to enhance collection efforts and manage our credit risk. For example, in 2022, we have enhanced our risk control measures to identify fraudulent behaviors among normal customers, where we forecast customers' business performance and estimate relevant payment collection based on our past experience and customer cases, conduct real-time monitoring of customers' business stability, business change, working capital sufficiency and willingness to repay, and assess their risk ratings to adopt different risk control measures. See "– Quantitative and Qualitative Disclosure of Financial Risks – Credit Risk" for details and (iv) we have provided sufficient trade receivable provisions. The carrying amounts of trade receivables amounted to RMB142.5 million, RMB178.5 million and RMB162.8 million as of December 31, 2020, 2021, and 2022, respectively. As of March 10, 2023, the subsequently settled trade receivables as of December 31, 2020, 2021 and 2022 amounted to RMB164.0 million, RMB205.4 million and RMB137.9 million, respectively, accounting for 73.3%, 71.0% and 42.8% of the gross carrying amount of our trade receivables, respectively, as of the respective period ends, or 97.1%, 97.2% and 76.8% of the gross carrying amount of our trade receivables, net of impairment loss for which we had made full provision, respectively, as of the respective period ends. In view of the above, we believe there is no recoverability issue for our trade receivables.

We determine the provision for impairment of trade receivables based on expected credit losses, calculated by using the simplified approach as prescribed by IFRS 9. Except for debtors with significant balances and credit-impaired assessed individually, we estimate the amount of lifetime ECL of trade receivables on a collective basis by using provision matrix through grouping of various debtors that have similar loss patterns, after considering ageing, internal credit ratings of trade debtors, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and forward looking information that is available without undue cost or effort. In view of the above, we consider the provision of ECL for trade receivables as of the respective period ends of the Track Record Period is sufficient.

Cash and Cash Equivalents

Our cash and cash equivalents primarily represent cash that we have in bank accounts and in term deposits. As of December 31, 2020, our cash and cash equivalents amounted to RMB725.4 million (of which RMB643.7 million was originally denominated in US dollars). Our cash and cash equivalents decreased to RMB542.6 million as of December 31, 2021 (of which RMB231.4 million was originally denominated in US dollars), mainly used in our operating activities, and further decreased to RMB505.8 million as of December 31, 2022 (of which RMB52.5 million was originally denominated in US dollars), primarily due to repayments of bank and other borrowings. Our cash and cash equivalents are primarily denominated in RMB and US dollars and carried interest rates ranging from 0.001% to 3.70% per annum throughout the Track Record Period.

Trade and Other Payables

Our trade and other payables primarily relate to payments of salary and welfare payables, other tax payables and accrued expenses. The following table sets forth our trade and other payables as of the dates indicated:

	As of December 31,		
	2020	**2021**	**2022**
		RMB'000	
Trade payables	53,789	63,796	103,709
Salary and welfare payables	26,935	36,390	40,295
Other tax payables	4,578	22,569	17,230
Accrued expenses	9,173	23,156	19,858
Other payables	–	7,522	–
Accrued [**REDACTED**] expenses and [**REDACTED**] costs	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Others	106	976	949
Total	94,581	163,682	188,563

The following table sets forth an aging analysis of our trade payables as of the date indicated based on the billing date and trade payable turnover days for the periods indicated:

	As of December 31,		
	2020	2021	2022
		RMB'000	
Within 12 months	48,144	56,394	95,741
1 to 2 years	2,907	1,813	1,101
2 to 3 years	2,631	2,862	1,289
Over 3 years	107	2,727	5,578
Total	53,789	63,796	103,709
Average trade payables turnover days(1)	43	35	41

(1) Average trade payables turnover days for each period equal the average of the opening and ending balance of trade payables for that period divided by cost of sales for the same period and multiplied by 365 days for a full-year period.

Our average trade payables turnover days decreased from 43 days for the year ended December 31, 2020 to 35 days for the year ended December 31, 2021. It then increased to 41 days for the year ended December 31, 2022, primarily due to we have obtained more favorable terms with our suppliers based on our good track record.

Our trade and other payables increased from RMB94.6 million as of December 31, 2020 to RMB163.7 million as of December 31, 2021, and further to RMB188.6 million as of December 31, 2022. The increase was in line with our enlarged procurement of devices to support our business expansion.

As of March 1, 2023, RMB51.9 million (or 96.4%), and RMB61.2 million (or 95.9%) and RMB65.2 million (or 62.8%) of our trade payables as of December 31, 2020, 2021, and 2022, respectively, were subsequently settled. As of March 1, 2023, RMB40.6 million (or 99.7%), RMB99.3 million (or 99.4%) and RMB63.3 million (or 74.6%) of our other payables and accruals as of December 31, 2020, 2021 and 2022, respectively, were subsequently settled.

Contract liabilities

Contract liabilities represent our obligations to provide the contracted services. Our contract liabilities mainly arise from our customers' upfront payment for our services or sales of devices. Our contract liabilities increased from RMB4.1 million as of December 31, 2020 to RMB7.7 million as of December 31, 2021, to RMB12.4 million as of December 31, 2022, primarily due to the expansion of our business and an enlarged customer base.

Income Tax Payable

Our income tax payable represents PRC EIT payables. Our income tax payable increased from RMB2.3 million as of December 31, 2020 to RMB3.0 million as of December 31, 2021, and further to RMB3.8 million as of December 31, 2022.

Lease Liabilities

Lease liabilities represent our obligations under the existing leases. At the commencement date of a lease, we recognize and measure the lease liabilities at the present value of lease payments that are unpaid at that date. After the commencement date, lease liabilities are adjusted by interest accretion and lease payments. Our lease liabilities increased from RMB94.6 million as of December 31, 2020 to RMB291.8 million as of December 31, 2021, primarily due to the increase in the amount of devices we leased from third parties, which was further due to the demand increase in our device volume as a result of our business expansion, and remained relatively stable at RMB289.3 million as of December 31, 2022.

Borrowings

Our borrowings represent borrowings and other loans. Our borrowings increased from RMB1,240.9 million as of December 31, 2020 to RMB1,605.3 million as of December 31, 2021, in line with our business expansion and decreased to RMB1,393.3 million as of December 31, 2022, primarily due to our increased repayment of borrowings. As of December 31, 2020, 2021, and 2022, we had approximately 29,000, 39,000 and 43,000 active customers, respectively, and approximately 0.8 million, 1.1 million and 1.1 million devices under service, respectively. Based on such strong indicators of a rapid growth in demand in our services, we proactively sought funding resources and incurred an increasing amount of borrowing primarily to purchase devices to meet the potential growth in demand and to expand our business. The table below sets forth our borrowings for the dates indicated:

	As of December 31,		
	2020	**2021**	**2022**
		RMB'000	
Bank Borrowings	586,163	638,328	585,372
Bank borrowings relating to bills discounted with recourse	–	34,850	–
Borrowings from other financial institutions	654,701	932,152	807,931
Total	1,240,864	1,605,330	1,393,303
Secured	1,202,266	1,605,330	1,393,303
Unsecured	38,598	–	–

Our borrowing agreements contain standard terms, conditions and restrictive covenants that were customary for commercial bank loans. See "Financial Information – Indebtedness – Borrowings."

NET CURRENT LIABILITIES/ASSETS

The following table sets forth details of our net current liabilities/assets as of the date indicated:

	As of December 31,			As of February 28,
	2020	2021	2022	2023
		RMB'000		
				(Unaudited)
Current assets				
Inventories	4,466	3,888	3,929	4,576
Contract costs	–	–	1,337	1,337
Trade and other receivables and prepayments	111,575	159,623	214,118	157,755
Debt instruments at fair value through other comprehensive income	–	34,850	–	–
Amounts due from shareholders	5	41	41	41
Structured deposits	32,015	32,009	–	35,109
Cash and cash equivalents	725,366	542,568	505,803	464,295
Pledged bank deposits and time deposits	73,808	35,439	54,376	78,513
Total current assets	947,235	808,418	779,604	741,626

	As of December 31,			As of February 28,
	2020	2021	2022	2023
		RMB'000		
				(Unaudited)
Current liabilities				
Trade and other payables	94,581	163,682	188,563	143,552
Amounts due to preferred shareholders	159,675	–	–	–
Amounts due to shareholders	–	1,779	1,841	1,841
Deposits received for rental computer devices	16,148	12,755	12,032	11,856
Advanced lease payments	16,152	30,330	51,285	56,089
Contract liabilities	4,073	7,715	12,385	12,711
Income tax payable	2,288	3,015	3,838	3,838

	As of December 31,			As of February 28,
	2020	2021	2022	2023
	RMB'000			
				(Unaudited)
Lease liabilities	47,151	167,194	185,934	187,521
Bond payable	–	14,888	11,040	7,626
Borrowings	894,785	1,221,780	1,072,717	998,457
Financial Liabilities at FVTPL	1,857,458	–	–	–
Total current liabilities	3,092,311	1,623,138	1,539,635	1,423,491
Net current liabilities	(2,145,076)	(814,720)	(760,031)	(681,865)

We had net current liabilities of RMB2,145.1 million, RMB814.7 million and RMB760.0 million as of December 31, 2020, 2021, and 2022. Our net current liabilities as of each of these dates was primarily attributable to our financial liabilities at fair value through profit or loss ("FVTPL") related to preferred shares, warrants and convertible bonds issued to investors, as well as our net borrowings incurred mainly to procure or rent new devices to support our business expansion.

We had net current liabilities of RMB760.0 million as of December 31, 2022, compared with net current liabilities of RMB814.7 million as of December 31, 2021. Such change was primarily due to (i) decrease in current borrowings from RMB1,221.8 million as of December 31, 2021 to RMB1,072.7 million as of December 31, 2022. As we increased the portion of leased-in-devices out of the total number of devices, we managed to achieve a net operating cash inflow in the year ended December 31, 2022, which was partially used for repayments of liabilities; and (ii) increase in trade and other receivables and prepayments from RMB159.6 million as of December 31, 2021 to RMB214.1 million as of December 31, 2022, partially offset by decrease in cash and cash equivalents from RMB542.6 million as of December 31, 2021 to RMB505.8 million as of December 31, 2022.

We had net current liabilities of RMB814.7 million as of December 31, 2021, compared with net current liabilities of RMB2,145.1 million as of December 31, 2020. Such change was primarily due to a decrease in the current portion of financial liabilities at FVTPL from RMB1,857.5 million as of December 31, 2020 to nil as of December 31, 2021, as partially offset by (i) an increase in current borrowings from RMB894.8 million as of December 31, 2020 to RMB1,221.8 million as of December 31, 2021, and (ii) an increase of current lease liabilities from RMB47.2 million as of December 31, 2020 to RMB167.2 million as of December 31, 2021.

For more discussion on our historical net current liabilities, see "– Liquidity and Capital Resources." For a discussion of relevant risks, see "Risk Factors – We have incurred, and in the future may continue to incur, net losses and negative cash outflow. We also recorded net current liabilities and negative equity, or net deficit, during the Track Record Period, which could expose us to liquidity risks."

LIQUIDITY AND CAPITAL RESOURCES

Our primary use of cash is for working capital. As of December 31, 2020, 2021 and 2022, we had cash and cash equivalents of RMB725.4 million, RMB542.6 million and RMB505.8 million, respectively. During the Track Record Period, our principal sources of liquidity and capital resources were cash generated from customers' subscription fees, bank balances, time deposits and borrowings. We monitor our cash flows and cash balance, our procurement pace and our funding plan on a regular basis. We strive to maintain optimal liquidity that meets our working capital needs while balancing with our business growth. In addition, our risk management capability also contributes to our liquidity management. See also "Business – Risk Management and Internal Control – Risk Management – Cash Management."

Our net current liabilities position during the Track Record Period was primarily due to (i) borrowings to fund our operations, in particular for the procurement of devices, and (ii) financial liabilities at fair value through profit or loss. We plan to fund our operations through our improved financial condition and the followings:

- *Steady cash generated from customers' subscription fees*. We generate cash from customers' subscription fees paid for our subscription services, which are usually steady and relatively predictable.

- *Borrowings and relationships with financial institutions*. We are able to obtain bank and other borrowings as necessary, as we maintain stable relationships with banks and other financial institutions.

- *Net* [**REDACTED**] *from the* [**REDACTED**]. We expect to receive net [**REDACTED**] from the [**REDACTED**] of approximately HK$[**REDACTED**], based on the low end of the indicative [**REDACTED**] range set out in this document.

See also "Business – Business Sustainability."

WORKING CAPITAL CONFIRMATION

Taking into account the financial resources available to us, including our cash and cash equivalents, available borrowings, as well as estimated net [**REDACTED**] from the [**REDACTED**], our Directors are of the view that we have sufficient working capital required for our operations at present and for at least the next 12 months from the date of this document. Going forward, we believe our liquidity requirements will be satisfied by using funds from a combination of our cash and cash equivalents, bank and other borrowings and net [**REDACTED**] from the [**REDACTED**]. Other than the bank and other borrowings that we may obtain, we do not have any plans for material external debt financing.

With same bases as set above, the Sole Sponsor concurs with the Directors' view that the Company has sufficient working capital required for its operations at present and for at least the next 12 months from the date of this document.

Cash Flows

The following table sets forth selected cash flow data from our consolidated statements of cash flows for the periods indicated:

	For the year ended December 31,		
	2020	**2021**	**2022**
	RMB'000		
Operating cash flows before movements in working capital	304,100	562,036	681,552
Changes in working capital[(1)]	(572,582)	(769,007)	(85,925)
Income taxes paid	(27)	(118)	(78)
Net cash (used in)/from operating activities	(268,509)	(207,089)	595,549
Net cash (used in)/from investing activities	(29,791)	86,283	1,479
Net cash from/(used in) financing activities	753,136	(47,077)	(636,055)
Net increase/(decrease) in cash and cash equivalents	454,836	(167,883)	(39,027)
Cash and cash equivalents at beginning of the year	280,669	725,366	542,568
Effect of foreign exchange rate changes	(10,139)	(14,915)	2,262
Cash and cash equivalents at end of the year	725,366	542,568	505,803

Note:

1) Changes in working capital are mainly caused by our procurement of devices to support our continuous investment in our business development.

Net cash from/used in operation activities

For the year ended December 31, 2022, we had net cash from operation activities of RMB595.5 million, which was primarily attributable to loss before income tax of RMB646.3 million, adjusted to reflect RMB164.9 million in increase in rental computer devices reflecting the growth of our pay-as-you-go office IT integrated solutions, and RMB79.4 million in decrease in trade and other payables, which was partially offset by RMB100.0 million in decrease in trade and other receivables and prepayments by excluding non-cash item primarily comprising (i) RMB308.6 million in depreciation of rental computer devices, and (ii) RMB702.2 million in loss on fair value changes of financial liabilities at fair value through profit or loss. In addition, for the purpose of recategorizing financing costs into financing activities, we also add back RMB169.6 million finance costs.

For the year ended December 31, 2021, we had net cash used in operation activities of RMB207.1 million, which was primarily attributable to loss before income tax of RMB351.0 million, adjusted to reflect an increase of RMB774.3 million in rental computer devices reflecting the growth of our pay-as-you-go office IT integrated solutions, by excluding non-cash item primarily comprising (i) RMB251.7 million in depreciation of rental computer devices, and (ii) RMB416.4 million in loss on fair value changes of financial liabilities at fair value through profit or loss. In addition, for the purpose of recategorizing financing costs into financing activities, we also add back RMB146.2 million finance costs.

For the year ended December 31, 2020, we had net cash used in operation activities of RMB268.5 million, which was primarily attributable to loss before income tax of RMB87.7 million, adjusted to reflect an increase of RMB672.5 million in rental computer devices and RMB18.6 million in gain on fair value changes of financial liabilities at fair value through profit or loss, partially offset by non-cash items primarily comprising RMB198.1 million in depreciation of rental computer devices. In addition, for the purpose of recategorizing financing costs into financing activities, we also add back RMB95.3 million finance costs.

Net cash from/used in investing activities

For the year ended December 31, 2022, our net cash from investing activities was RMB1.5 million, consisting primarily of withdrawal of structured deposit of RMB64.9 million and withdrawal of pledged bank deposits and time deposits of RMB11.0 million, partially offset by placement of pledged bank deposits and time deposits of RMB42.4 million and purchases of structured deposit of RMB32.0 million.

For the year ended December 31, 2021, our net cash from investing activities was RMB86.3 million, consisting primarily of withdrawal of pledged bank deposits of RMB129.1 million and withdrawal of structured deposit of RMB64.5 million, partially offset by purchases of structured deposit of RMB64.0 million and placement of pledged bank deposits of RMB42.0 million.

For the year ended December 31, 2020, we had net cash used in investing activities of RMB29.8 million, consisting primarily of placement of pledged bank deposits of RMB140.3 million and purchases of structured deposit of RMB32.0 million, partially offset by withdrawal of pledged bank deposits of RMB137.6 million.

Net cash from/used in financing activities

For the year ended December 31, 2022, we had net cash used in financing activities of RMB636.1 million, primarily attributable to repayments of bank and other borrowings of RMB1,755.8 million, partially offset by proceeds from bank and other borrowings of RMB1,541.3 million.

For the year ended December 31, 2021, we had net cash used in financing activities of RMB47.1 million, primarily attributable to repayments of bank and other borrowings of RMB1,904.4 million, redemption of ordinary shares with preferred rights of RMB659.4 million and redemption of preferred shares of RMB1,058.1 million, partially offset by proceeds from bank and other borrowings of RMB2,268.9 million and proceeds from issue of ordinary shares with preferred rights of RMB1,060.6 million.

For the year ended December 31, 2020, we had net cash generated from financing activities of RMB753.1 million, which was primarily attributable to proceeds from bank and other borrowings of RMB1,670.8 million and proceeds from issue of convertible bonds of RMB351.5 million, partially offset by repayments of bank and other borrowings of RMB1,280.3 million and paid interest of RMB93.9 million.

INDEBTEDNESS

Our indebtedness primarily consisted of amounts due to preferred shareholders, lease liabilities, borrowings, bond payable and financial liabilities at FVTPL. Our indebtedness as of December 31, 2020, 2021, 2022, and February 28, 2023, being the latest practicable date for determining our indebtedness, was as follows:

	As of December 31,			**As of February 28,**
	2020	**2021**	**2022**	**2023**
		RMB'000		
				(Unaudited)
Current				
Amounts due to preferred shareholders	159,675	–	–	–
Amounts due to shareholders	–	1,779	1,841	1,841
Lease liabilities	47,151	167,194	185,934	187,521
Bond payable	–	14,888	11,040	7,626
Borrowings	894,785	1,221,780	1,072,717	998,457
Financial liabilities at FVTPL	1,857,458	–	–	–

	As of December 31,			As of February 28,
	2020	2021	2022	2023
		RMB'000		
				(Unaudited)
Non-current				
Borrowings	346,079	383,550	320,586	351,138
Bond payable	–	11,250	–	–
Lease liabilities	47,457	124,557	103,362	89,568
Financial liabilities at FVTPL	–	2,282,188	2,984,358	3,356,476
Total	3,352,605	4,207,186	4,679,838	4,992,627

Borrowings

Our borrowings mainly represented our borrowings from banks and non-bank financial institutions, such as finance leasing companies, trust institutions and factoring companies, in China. Our borrowings were all denominated in RMB during the Track Record Period. The interest rate of our borrowings ranged from 3.7% to 12.0% (3.7% to 9.0% from banks and 4.7% to 12.0% from other financial institutions) for the year ended December 31, 2020, from 3.7% to 12.6% (3.7% to 11.9% from banks and 4.6% to 12.6% from other financial institutions) for the year ended December 31, 2021, from 3.4% to 12.1% (3.4% to 9.0% from banks and 5.3% to 12.1% from other financial institutions) for the year ended December 31, 2022, respectively. As of December 31, 2020, 2021 and 2022, our total current borrowings and non-current borrowings amounted to RMB1,240.9 million, RMB1,605.3 million and RMB1,393.3 million respectively among which RMB1,202.3 million, RMB1,605.3 million and RMB1,393.3 million are secured by self-owned rental computer devices and the associated collection rights of future proceeds for rent computer devices. Included in the secured borrowings, RMB1,162.4 million, RMB1,408.1 million and RMB1,369.3 million were guaranteed by Dr. Ji and Mr Zhang. As of February 28, 2023, our secured and/or guaranteed borrowings amounted to RMB1,349.6 million. As of the Latest Practicable Date, we had credit lines of approximately RMB3.1 billion, willing to be provided by banks and other financial institutions, among which approximately RMB1.6 billion was unutilized and was guaranteed by our Single Largest Shareholders Group. Among the unutilized credit lines of approximately RMB1.6 billion, approximately RMB0.8 billion was unrestricted, while the remaining approximately RMB0.8 billion was restricted to be used for device procurement purpose.

Our borrowing agreements with banks contain standard terms, conditions and restrictive covenants that were customary for commercial bank loans, including restriction on financial ratios (such as asset-liability ratio, quarterly revenue, tangible net assets, and device utilization rate) and other restrictions or obligations (such as use of funds, notification and/or consent requirement under certain events). We have also obtained borrowings from other financial institutions, including factoring companies, finance leasing companies and trust institutions, which typically offer longer term, to diversify our financing resources. Compared to our borrowing agreements with banks, our borrowing agreements with other financial institutions typically contain longer term and higher interest rate. As of December 31, 2020, we had borrowing balance of RMB263.6 million from factoring companies, RMB384.6 million from finance leasing companies, RMB6.5 million from trust institutions. As of December 31, 2021, we had borrowing balance of RMB276.3 million from factoring companies, RMB429.7 million from finance leasing companies, RMB226.2 million from trust institutions. As of December 31, 2022, we had borrowing balance of RMB184.0 million from factoring company, RMB437.8 million from finance leasing company, RMB186.2 million from trust institution. See "Risk Factors – Our business requires a large amount of capital to finance the expansion of our operations. We have also maintained a relatively high level of indebtedness. Failure to manage our liquidity and cash flows or inability to obtain additional financing in the future could have a material adverse impact on our business, results of operations and financial condition" and "Relationship with Our Single Largest Shareholders Group."

We regularly report relevant data to financial institutions that impose restrictions on key financial ratios and device utilization rates as stipulated in the borrowing agreements. We have also strictly complied with restrictions on the use of funds and acted accordingly to prohibit use of such funds for investments in fixed assets, equity, or other securities. In an event that requires notification and/or consent, we will obtain consent or waivers from financial institutions with relevant restrictions. To ensure ongoing compliance with our borrowing agreements, we have developed independently a financial system to avoid the risk of failure to send notice to or obtain consent from financial institutions in a timely manner when obliged. Our financial system can perform the following measures: (i) recording the specific contents regarding business events, legal events and financing events that require notification to or consent from the other party as stated in the external borrowing agreements we signed and relevant contact information; (ii) reminding our institutional cooperation department and legal compliance department to host weekly interdepartmental meetings to summarize events, and recording meeting minutes; (iii) automatically identifying the events that require sending notification to or obtaining consent from the specific financial institutions based on the meeting minutes and generating template documents for event notifications; and (iv) automatically sending out the event notification emails after manual confirmation for recordation and reminding the person in charge for unsent emails until emails are send out. For matters that require consents from the other party, we manually record other party's feedback on the financial system. During the Track Record Period and up to the Latest Practicable Date, we did not experience any difficulty in obtaining borrowings, from either banks or other financial institutions, or default in payment of borrowings. Our Directors also confirm that there was no material breach in any covenants under our borrowing agreements in any material aspects that could have a material adverse impact on our financial condition and business during the Track Record Period and up to the Latest Practicable Date. Given our credit history and our current credit status, we believe that we will not encounter any major difficulties in obtaining additional borrowings in the future.

Lease Liabilities

Upon the application of IFRS 16, we recognized the corresponding lease liabilities for our right-of-use assets in respect of all leases unless they were qualified for low-value or short-term leases. As of December 31, 2022, we, as lessee, had outstanding current lease liabilities of RMB185.9 million and non-current lease liabilities of RMB103.4 million certain of which are secured by rental deposits and rental computer devices. As of February 28, 2023, we, as lessee, had outstanding lease liabilities of RMB277.1 million, certain of which are secured by rental deposits and rental computer devices.

Financial Liabilities at FVTPL

Our financial liabilities at FVTPL mainly represent ed our preferred shares, warrants and convertible bonds issued to investors through share subscription agreements. Fair values of preferred shares, warrants and convertible bonds are affected by changes in our equity value and various parameters and inputs. As of December 31, 2022, our current financial liabilities at FVTPL amounted to nil and our non-current financial liabilities at FVTPL amounted to RMB2,984.4 million. As of February 28, 2023, we had preferred shares which are measured at FVTPL at amount of RMB3,356.5 million. Between December 31, 2022 and February 28, 2023, we did not issue or repurchase any preferred shares. All the Preferred Shares are unsecured and unguaranteed.

Amounts due to Shareholders

The amounts due to shareholders are non-trade in nature, unsecured and unguaranteed, interest-free, and repayable on demand. As of December 31, 2022, our amounts due to shareholders amounted to RMB1.8 million. As of February 28, 2023, amounts due to shareholders are RMB1.8 million, all of which are unsecured and unguaranteed.

Bond Payable

We have issued bond during the Track Record Period. As of December 31, 2022, our current bond payable amounted to RMB11.0 million, which is unsecured and guaranteed by a third party and our non-current bond payable amounted to nil. As of February 28, 2023, we had bond payable of RMB7.6 million which is unsecured and guaranteed by a third party.

Except as disclosed in "– Indebtedness," since December 31, 2022 and up to the date of this document, there has been no material change to our indebtedness. As of January 31, 2023, being the latest practicable date for determining our indebtedness, except as disclosed in this document, we did not have any other loan issued and outstanding or any loan agreed to be issued, bank overdrafts, loans and other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

CAPITAL EXPENDITURES AND CONTRACTUAL COMMITMENTS

As of December 31, 2020, 2021 and 2022, we had no material capital commitments.

Capital Expenditure

For the years ended December 31, 2020, 2021, and 2022, our capital expenditure amounted to RMB763.1 million, RMB1,167.8 million and RMB566.4 million, respectively, consisted of (i) additions to rental computer devices of RMB662.7 million, RMB809.3 million and RMB335.2 million, respectively, and (ii) additions to right-of-use assets of RMB100.4 million, RMB358.5 million and RMB231.2 million, respectively. We expect that our capital expenditure for 2023 will continue to increase, and we plan to finance such expenditure through cash flow from customers' subscription fees, bank and other borrowings and the net [**REDACTED**] from the [**REDACTED**].

Contingent Liabilities

As of the Latest Practicable Date, we did not have any material contingent liabilities, guarantees or any other litigations or claims of material importance, pending or threatened against us that are likely to have a material and adverse effect on our business, financial condition or results of operations.

Off-Balance Sheet Commitments and Arrangements

As of the Latest Practicable Date, we did not have any off-balance sheet commitments or arrangements.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into a number of transactions with related parties. For details of our related party transactions, see note 33 to the Accountants' Report in Appendix I to this document. As of December 31, 2020, 2021, and 2022, respectively, RMB1,162.4 million, RMB1,408.1 million and RMB1,369.3 million of our secured borrowings were guaranteed by Dr. Ji and Mr. Zhang. We do not expect such guarantees to be released upon [**REDACTED**], as our Directors are of the view that premature discharge of the such guarantees would be impractical and unduly onerous to our Group and would not be in the best interests of our Group and our Shareholders, considering that early replacement or discharge of such secured borrowings would require renegotiation of the terms with the relevant banks, and that the renegotiation would take considerable time, which may affect our normal operation. Considering that (i) we have sufficient capital to operate our business independently and are capable of obtaining financing from Independent Third Party banks if necessary; and (ii) we have an independent financial system and make financial decisions according to our Group's own business needs independently, the Directors are of the view that we are financially independent of our Single Largest Shareholders Group and/or their close associates. See "Relationship with Our Single Largest Shareholders Group." Our directors are of the view that our Group is financially independent of the Single Largest Shareholders Group and/or their close associates.

We are of the view that our transactions with related parties during the Track Record Period were trade in nature and were conducted on an arm's-length basis and with normal commercial terms between the relevant parties. We are also of the view that our related party transactions during the Track Record Period will not distort our historical results or make our historical results unreflective of our future performance.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as of the date or for the period indicated.

	For the year ended December 31,		
	2020	**2021**	**2022**
Total revenue growth[(1)]	28.6%	45.6%	15.9%
Total gross profit margin[(2)]	41.4%	47.7%	45.7%
Net profit margin[(3)]	(10.9%)	(29.4%)	(44.6)%
Adjusted net profit margin (non-IFRS measure)[(4)]	(5.5%)	7.9%	9.9%

(1) Total revenue growth equals to the current year's revenue minus the previous year's revenue, divided by the previous year's revenue, and multiplied by 100%.

(2) Gross profit margin equals gross profit divided by revenue for the year and multiplied by 100%.

(3) Net profit margin equals (loss)/profit divided by revenue for the year and multiplied by 100%.

(4) Adjusted net profit margin (non-IFRS measure) equals non-IFRS (loss)/profit divided by revenue for the year and multiplied by 100%.

QUANTITATIVE AND QUALITATIVE DISCLOSURE OF FINANCIAL RISKS

We are exposed to various types of financial risks in the ordinary course of business, including foreign currency risk, credit risk, liquidity risk and interest rate risk. Our overall risk management strategy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. Our senior management is responsible for carrying out our risk management. For details, see note 30.2 of "Appendix I – Accountants' Report" in this document.

Market Risk

Foreign exchange risk

The functional currency of both our Company and our subsidiaries is RMB. Foreign exchange risk arises when future commercial transactions or recognized financial assets and liabilities are denominated in a currency that is not RMB. In addition, we have intra-group balances with a subsidiary denominated in a foreign currency which also exposes us to foreign currency risk.

We operate in Mainland China, and most of our transactions are settled in RMB. We consider that any reasonable changes in foreign exchange rates of other currencies against the functional currency would not result in a significant change in our results, as the net carrying amounts of financial assets and liabilities denominated in a currency other than RMB are considered to be insignificant.

Interest rate risk

Interest rate risk is the risk probability that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating-rate instruments expose us to cash flow interest rate risk, whereas fixed-rate instruments expose us to fair value interest risk. Our cash flow interest rate risk primarily arose from cash and cash equivalents, and pledged bank deposits and time deposits. Our fair value interest risk primarily arises from lease liabilities and borrowings. We do not anticipate there being any significant impact to interest-bearing assets that could result from the changes in interest rates, because the interest rates of bank deposits are not expected to change significantly.

Other price risk

We are exposed to price risk in respect of structured deposits issued by a bank that are measured as financial assets at FVTPL, as well as preferred shares, warrants and convertible bonds measured as financial liabilities at FVTPL. The above financial instruments are exposed to price risk because of changes in market prices, where changes are caused by factors specific to the individual financial instruments or their issuers, or factors affecting all similar financial instruments traded in the market.

Preferred shares, warrants and convertible bonds are affected by changes in our value, the sensitivity analysis of which has been disclosed in note 30.4 of "Appendix I – Accountants' Report" in this document. The fair value change of structured deposits issued by a bank is not considered to be significant.

We have formulated policies setting out the approval process for the structured deposits, and the responsible person/department for the enforcement of the policies. Our investment decisions are made on a case-by-case basis and after due and careful consideration of our cash flow and operational needs. Each transaction for the purchase of funds and wealth management products is initiated by our finance department, which should be reviewed by board office, compliance department and in-house legal staff, subject to the approval of our chief financial officer, Mr. Xiang Zheng. See "Directors and Senior Management" for a detailed description of Mr. Xiang's qualifications and credentials. CFO's authority to approve investment plans is granted and approved annually by our Board.

We generally prefer bank-issued structured deposits with a relatively low risk level assigned to them by relevant banks and as stipulated in the purchase agreements for such products. We primarily purchase structured deposits from PRC commercial banks, with a focus on low risk and liquid fixed-income instruments that are quoted on the interbank market or exchanges in China, including, among others, treasury bonds, corporate bonds, medium-term notes, short-term commercial paper and interbank deposits.

Our investment policies set forth guidelines to follow in structured deposits investments, including the follows:

- The bond funds products, equity funds products and futures funds products invested in shall be issued by public funds or by private funds managers with assets under management exceeding RMB200 million.

- The total amount invested in products with a maturity period of over one year should not exceed 50% of the investable amount, and the total amount invested in products with a maturity period of 90 days or less should not be lower than 20% of the investable amount.

However, in general, the issuing bank do not guarantee the principal or the returns of any structured deposit. Those structured deposits generally do not have fixed terms and are redeemable on demand. We closely monitor latest developments in equity and credit market and interest risks, and regularly assess the relevant impacts on the performance and principal of the products we purchased. We redeem the structured deposits products when there is a need for cash from our operating activities. We purchase and redeem short-term structured deposits from time to time for liquidity management purpose. We believe that we can make better use of our cash by making appropriate investments to enhance our income without interfering with our business operation.

We have also implemented internal control measures to mitigate investment risks, including the follows:

- The documentation of the investment products is reviewed by the compliance department and in-house legal staff to ensure compliance with relevant laws and regulations.

- We evaluate the investments in medium- and high-risk products in a timely manner, and set the stop-loss order within 15% for high-risk products and 8% for medium-risk products.

- We monitor the fluctuations in the investment products' performance, and would send inquiry letters to the issuers should the fluctuations exceed our set margin.

- Our board office issues an investment analysis report at the end of each quarter, which is reviewed and approved by our CFO.

Our investment in these assets after the [**REDACTED**] will be subject to the compliance with Chapter 14 of the Rules.

Credit Risk

We are exposed to credit risk in relation to cash and cash equivalents, pledged bank deposits and time deposits, amounts due from shareholders, trade and other receivables, debt instruments at FVTOCI and structure deposits. The carrying amounts of each class of the above financial assets represent our maximum exposure to credit risk in relation to financial assets.

Our cash and cash equivalents, pledged bank deposits and time deposits are mainly deposited in state-owned or reputable financial institutions in Mainland China and reputable international financial institutions outside of Mainland China. There has been no recent history of any defaults in relation to these financial institutions. These instruments are considered to have a low credit risk because they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term. The identified credit losses are insignificant during the Track Record Period.

To manage risk arising from trade receivables, we have credit risk grading policies in place to ensure that credit terms are made to counterparties with an appropriate credit history, and that the management performs ongoing credit evaluations of its counterparties. We use publicly available financial information and our own trading records to rate major customers and other debtors. The credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors.

For trade receivables arising from contracts with customers and lease arrangements, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances and credit-impaired assessed individually, the directors of the Company estimate the amount of lifetime ECL of trade receivables on a collective basis by using provision matrix through grouping of various debtors that have similar loss patterns, after considering ageing, internal credit ratings of trade debtors, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and forward looking information that is available without undue cost or effort.

For the years ended December 31, 2020, 2021 and 2022, our impairment losses under ECL, net of reversal amounted to RMB32.2 million, RMB30.5 million and RMB51.1 million, respectively. As of December 31, 2020, 2021 and 2022, our allowance for credit losses of trade receivables amounted to RMB81.1 million, RMB111.5 million and RMB159.6 million, respectively. Such significant increase in amounts was primarily due to the significant increase in the credit risk relating to our relevant customers, which mainly include the following situations: (i) some customer groups have been affected by industry-wide restrictive regulations (such as customers in long-term apartment rental industry or education industry) in recent years, resulting in poor operational performances, which have in turn increased their credit risks; and (ii) certain customers, or employees of the customers, committed frauds and resold our devices for cash.

Details of the major industry-wide regulations for long-term apartment rental industry and education industry are set forth as follows:

- For long-term apartment rental industry, according to Opinions of the Ministry of Housing and Urban-rural Development and Other Departments on Strengthening the Regulation of Asset-light Housing Rental Enterprises (《住房和城鄉建設部等部門關於加強輕資產住房租賃企業監管的意見》), jointly promulgated by six departments on April 15, 2021, the State implemented a series of measures to strengthen the regulation over housing rental companies mainly in the following aspects: (i) housing rental companies are required to register as business entities and obtain business license, (ii) housing rental companies shall deposit the rental funds into a regulated account at local commercial banks, and (iii) these companies are prohibited from conducting a range of financial activities in a covert manner, such as embedding consumer housing rental loans in leases, using tenants' credit to obtain consumer loans or inducing tenants to use the loans. In addition, the opinions implemented restrictions on the pricing level and rent payment terms for housing rental companies, which further affected the liquidity position of these companies.

- For education industry, according to Opinions on Further Easing the Burden of Excessive Homework and Off-campus Tutoring for Students Undergoing Compulsory Education (《關於進一步減輕義務教育階段學生作業負擔和校外培訓負擔的意見》) promulgated by CPC Central Committee and General Office of the State Council of the People on July 24, 2021, the State strictly regulated off-campus tutoring programs featuring curriculum subjects. Specifically, (i) existing institutions shall be registered as non-profit institutions; (ii) school curriculum tutoring institutions are not allowed to go public for financing or seek investment from listed companies or foreign investor; and (iii) off-campus tutoring shall include no overseas education courses and shall not operate on national festivals and holidays. The regulation had in effect banned for-profit tutoring for school curriculum education and strictly restricted the expansion of existing institutions.

We have discontinued the cooperation with all of these customers after recognizing significant increase in their credit risks and making full provision for impairment on their trade receivables.

For customers who are impacted by industry-wide restrictive regulations, we closely follow the recent development of regulations and policies and perform customer screening in a timely manner. We issue different levels of early warning for different customers based on their business size, the degree of impact on their business and their business adjustment, as well as take control measures such as monthly on-site inventory inspection or early subscription termination.

For fraudulent customers, we have implemented know-your-customer procedures including on-site visits and verification of customers' information before signing the contracts. However, it is still difficult for us to identify fraudulent behaviors among customers under normal and legal operations. In this regard, we have strengthened our risk control measures by establishing a new risk control system in 2022. Our new risk control system allows us to forecast customers' business performance and estimate relevant payment collection based on our past experience and customer cases and conduct real-time monitoring and risk rating based on customers' business stability, business change, working capital sufficiency and willingness to repay. We adopt different control measures in accordance to customers' risk ratings.

Specifically, when customer first places orders, we identify illegal activities by checking if the number of devices ordered match the number of employees, if the device configuration is appropriate for employees' position, and if multiple companies are using the same IP address for logging in. We look for trends or patterns of fraudulent practices, such as payments through personal bank accounts, no invoice request, and unusual device configurations for subsequent orders. For these customers, we review their profile, timely identify relevant risks, and take control measures such as inventory inspection, payment collection and early termination of cooperation as appropriate. In addition, our credit management team is responsible for reviewing and assessing the collectability of customers with high risk on a case-by-case basis. During the Track Record Period, we discontinued to grant credits to certain fraudulent customers taking into account various criteria, such as their repayment history as well as their ability and intention to pay.

Liquidity Risk

In the management of the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance our operations and mitigate the effects of fluctuations in cash flows. See note 30.2(c) to the Accountants' Report included in Appendix I to this document.

DIVIDENDS

No dividends have been paid or declared by our Company during the Track Record Period. Our Board may declare dividends in the future after taking into account our results of operations, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment, as well as the amount of dividends, will be subject to our constitutional documents and the Cayman Companies Act. Under the Cayman Islands law, our Company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in our Company being unable to pay its debts as they fall due in the ordinary course of business. As advised by our Cayman Islands counsel, subject to the above, there is no restriction under the Cayman Islands law for our Company to declare and pay a dividend, despite our net liabilities position. In addition, our Directors may from time to time pay such interim dividends on shares outstanding of our Company and authorize payment of the same out of the funds of our Company that are lawfully available. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the discretion of our Board.

DISTRIBUTABLE RESERVES

As of December 31, 2022, our Company had no reserves available for distribution to our Shareholders.

UNAUDITED [REDACTED] STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

For details of our unaudited [**REDACTED**] adjusted consolidated net tangible assets, see Appendix II to this document.

[REDACTED] EXPENSES AND [REDACTED] COSTS

[**REDACTED**] expenses represent professional fees, [**REDACTED**], and other fees incurred in connection with the [**REDACTED**]. Assuming an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**] (being the mid-point of the [**REDACTED**] range stated in this document), [**REDACTED**] expenses and [**REDACTED**] costs to be borne by us are estimated to be approximately HK$[**REDACTED**] (including (i) [**REDACTED**] of approximately HK$[**REDACTED**], and (ii) non-[**REDACTED**] related expenses of approximately HK$[**REDACTED**], which consist of fees and expenses of legal advisors and Reporting Accountants of approximately HK$[**REDACTED**] and other fees and expenses of approximately HK$[**REDACTED**]), assuming the [**REDACTED**] is not exercised and no shares are issued pursuant to the Pre-[**REDACTED**] Option Plan. For the years ended December 31, 2021 and December 31, 2022, approximately RMB[**REDACTED**] million (equivalent to approximately HK$[**REDACTED**]) and RMB[**REDACTED**] (equivalent to approximately HK$[**REDACTED**]) was charged as [**REDACTED**] expenses, respectively and approximately RMB[**REDACTED**] (equivalent to approximately HK$[**REDACTED**]) was charged as [**REDACTED**] costs to our audited consolidated financial statements. After December 31, 2022, approximately RMB[**REDACTED**] (equivalent to approximately HK$[**REDACTED**]) is expected to be charged to our consolidated financial statements of profit or loss, approximately RMB[**REDACTED**] (equivalent to approximately HK$[**REDACTED**]) is expected to be accounted for as a deduction from equity upon [**REDACTED**]. The [**REDACTED**] expenses are expected to account for [**REDACTED**]% of gross [**REDACTED**] generated from the [**REDACTED**]. The [**REDACTED**] expenses and [**REDACTED**] costs above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

NO MATERIAL ADVERSE CHANGE

After due and careful consideration, our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial and trading position or prospects since December 31, 2022, and there has been no event since December 31, 2022 which would materially affect the information shown in the Accountants' Report, the text of which is set out in Appendix I to this document.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.